DECEMBER 1960

The Mortgage Banker

In early America, 170 years ago when a nation was forging its beginnings in New England, coming home for the holidays could mean returning to quiet, placid scenes such as these (see page 3).

MORTGAGE BANKERS ASSOCIATION OF AMERICA MBA ORGANIZED 1914

in this issue — — — — — — — — LOOKING AHEAD TO THE NEW YEAR IN REAL ESTATE AND AREAS OF MORTGAGE LENDING


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MBA CALENDAR

1961

January 17-19, Senior Executives Conference, New York University, New York

January 22-24, Senior Executives Conference, Southern Methodist University, Dallas

February 20-21, Midwestern Mortgage Conference, Conrad Hilton Hotel, Chicago

April 10-11, Southern Mortgage Conference, Dinkler-Plaza Hotel, Atlanta

April 20-21, Mortgage Servicing Clinic, Olympic Hotel, Seattle

May 18-19, Eastern Mortgage Conference, Queen Elizabeth Hotel, Montreal, Canada

June 18-24, School of Mortgage Banking, Courses I and II, Northwestern University, Chicago

June 25-30, School of Mortgage Banking, Course III, Northwestern University, Chicago

July 23-29, School of Mortgage Banking, Course I, Stanford University, Stanford, California

July 30-August 5, School of Mortgage Banking, Course II, Stanford University, Stanford, California

September 11-14, Electronic Convention, Statler Hilton Hotel, Detroit

October 30-November 2, 48th Annual Convention, Americana Hotel, Miami Beach, Florida

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President Tharpe's Calendar

January 9, Hawaii MBA, Honolulu

January 27, New Orlean, MBA

February 7, Birmingham MBA

March 23, St. Louis MBA

March 24, Nebraska Lenders Association, Omaha

April 6, California MBA, Coronado, Calif.

April 24, Iowa MBA, Sioux City

April 30, ABA Trust Conference, Washington, D. C.

May 10, Texas MBA, Ft. Worth

The Mortgage Banker

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This month's cover has no relation to contents—except that this is the Holiday season, a time which so often prompts us to recall old friends and old times. These cover pictures recall some of the earliest days of the nation. They are scenes from the re-created Old Sturbridge Village in Massachusetts. Upper left shows Minor Grant's General Store of 1790 where our ancestors did their Christmas shopping for penny candy, cornhusk dolls, yard goods and the like. Right is a nonsectarian meeting house on the green—this one a perfect example of Greek revival architecture. Lower left, an old grist mill and, right, it's Muster Day for the militias common in those days. They're sampling some cider.

Quotes

Reflections of the World Today in Capsule Comments

"The majority of business signposts," said Standard Oil of New Jersey President M. J. Rathbone, "indicate we're now in a business recession that won't be too drastic. The downturn should bottom out by the end of the second quarter of next year."

•

"Despite some loss of momentum," said National Industrial Conference Board Economist Martin Gainsbrugh, "arising from the cessation of inventory buying, the continued strength of end-product demand gives promise that the worst of the dislocations arising from the drastic reversal of inventory policy may be over shortly. Economic growth now stems increasingly from internal rather than external forces, from research and development."

•

"I don't believe," said Chase Manhattan Bank President George Champion, "the readjustment we're in is serious. It might be longer than some in the past, but it probably won't be as deep. We can't go along spending more than $12 billion a year for new products and processes, as the economy has been doing, and not need new buildings and machinery."

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"Some 26 million young Americans," said Seymour Wolfbein, Labor Department employment authority, "will be knocking on employers' doors during the '60s, asking for jobs. That's an absolutely fantastic figure. Never before in history has there been anything like it."

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"Most important," said Dr. Arthur F. Burns, former chairman, President's Council of Economic Advisers, "is that American business men making capital investments in foreign countries must raise as much capital as possible in the countries where their expansion is taking place. This will give the people in those countries a chance to participate and the United States will win friends. As it is now, we have been losing friends and gold as well."

•

"Economic growth and expansion," said Dr. Marcus Nadler, NYU professor of finance and economist for The Hanover Bank, "of private indebtedness go hand in hand.

"The former would be impossible without the latter. Private debt represents the savings of the people and without debt these savings could not find profitable outlets. Thus, the sharp increase of private debt in the postwar period reflects not only economic growth but also the ability of the country to save.

"By far the largest portion of the postwar private debt was contracted to increase the productive capacity of the country and to build homes. Only a relatively small proportion was used to finance the purchase of durable consumer goods, such as automobiles and appliances. In this respect private debt differs materially from that incurred by the government to finance wars or budgetary deficits.

"Net private debt in the United States grew from $160.4 billion in 1930 to about $580 billion in 1960, up 262 per cent. In the same period the GNP rose from $91.1 billion to about $505 billion, a gain of 454 per cent. Whereas in 1930 there was $1.76 of private debt for each dollar of GNP, in 1960 there was only $1.15."

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"America's trade and aid programs," said John Exter, vice president, First National City Bank of New York, "in Western Europe have come back to haunt this country. It is irony that events have gone in a full circle and we have to do the same things we suggested to others and which worked so successfully.

"Persistence of the international balance of payments deficit is a sure sign that we have been creating too much money at home. It is this above all that we must stop; and if we do stop it our international payments surely will have to come into balance.

"The United States has been too expansionary in the 1950s. If we are to maintain our status as the world's banker, we have to hold prices and costs in line and let the rest of the world adjust its standards to us. This is happening."

•

"The eyes of the world," said General Electric Chairman Ralph J. Cordiner," are on the new administration to see whether it has the political courage to keep inflation under control and the dollar solid . . . by sound and conservative measures, the federal government and the business community have been bringing inflation under control.

From the Rostrum

Mined From The Manuscripts

IT'S NEW FOR THE U. S.

"A major shift in the economy, not unassociated with our production cost, is the disappearance of the so-called dollar gap in the complex of international transactions," said Dr. Courtney C. Brown, Dean of the Graduate School of Columbia University at the New York State Savings Banks Convention. "It is hard to recall that a few years ago many thought the dollar gap was a permanent part of our international economic relations.

"For most of the post-war period the United States has had a preferred position. The world needed the products that only we were able to supply in large volume. Our relatively higher production costs were of limited significance in world competition, for other countries had few exportable surpluses other than raw materials.

"The situation has now changed. Western Europe and Japan particularly are in a position to compete with volume shipments of manufactured products at lower unit costs.

"It is paradoxical in this situation that exports from North America to Western Europe in the first half of the year were 40 per cent above last year's first half, but this represents a restocking that does not promise to last.

"Our position in world trade in the decade of the 1960s will be different from that of the 1950s. It will be strong only if our costs are competitive. If they are, I do not believe we shall be too concerned about gold losses or about the speculative manipulations of gold prices.

"Contemplation of these several variables in the business outlook convinces me that the general situation may be much better than it has appeared from surface indications.

"The budget is balanced and prices are comparatively stable. Incomes are greater than consumption, which in turn is greater than production.

"Shifts in the patterns of demand have been recognized and production is being shifted to meet them. There are now ample money supplies and it appears as though they will continue to be available at moderate costs.

"While the rate of accumulation of 'pipe-line' inventories by business has diminished, business has, as the result of large research and development outlays, acquired a large inventory of new products and of cost-reducing methods that have yet to be introduced.

"The economy is happily unencumbered by speculative excesses built on flimsy credit structures.

"It would take very little in this setting, it seems to me, to trigger a restoration of robust confidence. It could be the Christmas buying season, it could be simply the progressive need for replacement, or it could be a growing dissatisfaction with excessive liquidity.

"Perhaps the best way to put the implication of all this is to say that, despite the discouraging nature of some recent reports, if I were a pessimist I would be very uneasy about my position.

"It is to be hoped that what appears to be the essential strength of the present situation is not disturbed by alarm leading to the artificial respiration of deliberate Federal deficits.

"A healthy recovery from the current position of a balanced budget would leave unimpaired the efforts that have been made, and must continue to be made, to achieve competitive world costs.

"It would have the added merit of avoiding the dampening effect that the later correction of an unbalanced budget must always have on the forces of recovery."

•

WE'RE NOT OVERBUILT

The idea that new home construction has temporarily outstripped population growth is not true. "To me, statements of this nature do not represent the facts," said Martin L. Bartling Jr., NAHB president at the U. S. Savings and Loan League's convention. There may be some overbuilding "in a very narrow segment" rep-

resented by upper and middle income groups. But, he said, lower-middle income families are in "an area of neglect" as far as new home construction is concerned.

"This vacuum in our housing picture has serious implications politically, economically and sociologically.

"It's time for the home-building industry to be mature enough to face up to the situation and do something about it. If we don't, there are other people with solutions to advance, and if that trend continues I would have grave fears about what would happen to our industry."

Bartling agreed that "little more" could be done to pep up building by lowering down payments and extending mortgage terms.

Instead, he declared, "we must bring the price of our product (homes) down. We must make our product more attractive, competitive and livable."

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THE GOOSE AND THE EGGS

"America's greatest danger today is our general indifference to the organized attempts to limit output per worker, per factory, and per farm," said Earl L. Butz, dean of agriculture, Purdue University, and former under secretary of agriculture, at ABA's National Agricultural Credit Conference.

"Indeed, most of us belong to groups which subscribe in one way or another to the strangling philosophy of limited output. One of the remarkable phenomena of our age is that America continues to grow in total production and standard of living, in spite of widespread organized attempts to prevent it. Most of us remain indifferent to those abominable practices round about us.

"We may not have as much manpower as Russia, for they have 800 million people under their domination today. We have only 180 million. They have the manpower, but we have the horsepower! And with that horsepower, we have the technological know-how in scientifically trained brains to make it work. All we lack is the full will to make it work. All we lack is the complete philosophy to make it work. All we lack is the real determination to stand on our own hind feet and not run for governmental aid at every sign of distress.

"What we all seem to be doing in

America is somehow trying to get more golden eggs out of the goose that lays the golden eggs."

•

THE FARM OF TOMORROW

"United States agriculture is in the midst of a far reaching technological revolution," said Harold G. Halcrow, head of the department of agricultural economics at ABA's Mid Continent Trust Conference.

"Between 1940 and 1960 the man-hours worked in agriculture dropped by more than one-third. Output per man-hour more than doubled. The aggregate volume of sales per farm more than doubled. In terms of constant 1954 prices, average sales of farm products per farm in the United States increased from about $4,000 in 1940 to more than $9,000 in 1960. The number of farms selling $10,000 worth of farm products or more in a year at 1954 prices almost doubled in the 20-year period. The number of farms selling less than $5,000 worth of products was reduced by almost one-half.

"If present trends continue, the number of farms in 1970 will be less than one-half of the number existing in 1940.

"Production per man will be 4 or 5 times as large in 1970 as in 1940, and the capital used per man, will increase correspondingly.

"Farming will continue to become more specialized as a result of new methods and techniques and greater mechanization.

"Differences between town and country will become less distinct. Rural people not living on farms now outnumber those who do by a ratio of about 5 to 3. Present trends suggest that earnings of farm people from off-farm sources will increase and within a few years exceed the net income from farming.

"The battle over farm price policy that has raged intermittently for almost 40 years is not headed for an early or easy settlement in the 1960's. A main effect of government price supports and controls has been to hold consumption lower than it would have been without such programs. Farm prices were higher at least from 1952 to 1956 than they would have been if no program had been in effect. The overall effects on output are uncertain.

"Agriculture may stabilize in terms of prices, real income per capita, and return to assets; but the changes in size of farms, output per man-hour, and capital used per man are expected to be greater in the next decade than in the last."

•

FIRST YEAR OF SIXTIES

The current U.S. economy is like a man who has just rushed from a steam bath into a pool of ice water, said George W. Mitchell, vice president of the Federal Reserve Bank of Chicago.

"A year ago, there were tremendous expectations for the about-to-begin '60s.

"It was to be a decade of unparalleled prosperity and an era of unprecedented growth.

"As 1960 got under way, conditions did not start to unfold in quite the manner predicted. In fact, instead of expansion and rising prosperity, the economy moved sluggishly in a sidewise fashion.

"In the first year of the Sixties, consumers have been good customers but not the better customers they were expected to be.

"In fact, for almost a year, consumer spending at retail has been disappointing considering the level and trend of consumer income."

"In many months of the year retailers have been inclined to blame bad weather and weather inappropriate for merchandise they had to sell.

"But used over and over, this excuse wears thin, even in the retail business, and by the fall of this year it had become quite evident that there was more behind the rather disappointing pace of consumer purchases than contrary weather."

The year also was one of realization that our industrial plant had grown somewhat more rapidly in its capacity to produce than many people had thought, he said.

"In short, 1960 has been a sobering up year. Rosy expectations make good material for reveries, but they have a way of eluding us as we wait for them to waft our way. Apparently, if we want the '60s of our dreams, we are personally going to have to do more about it."

▶ ***SIZE OF A MARKET:** Just what is the size of this vast pension fund market? Arthur W. Viner, president, Investors Central Management Corp., measured it at the NAREB Convention:*

The pension funds have captured the imagination of the real estate fraternity. Many have let their imaginations run wild. Pension fund money is seen as the solution to ill-conceived projects after all traditional sources have rejected them. I have even heard it seriously stated that pension funds can eliminate so-called tight money.

Let's look at the *size* of the pension funds, and then divide them into their various categories. For it is the sheer size and rapid growth of these funds, together with the mystery surrounding them, which have given them their romance to real estate and mortgage people.

The total assets of all pension funds were about $95 billion at the end of last year. From our viewpoint, this total must be reduced by $33 billion to eliminate the Federal Social Security system, and other programs administered by the Federal Government. An additional $17½ billion must be subtracted to eliminate insured pension funds—those administered by life insurance companies, which have long been open to mortgages and real estate along with the rest of life insurance company reserves. This leaves $44½ billion—still a very respectable figure.

This $44½ billion, in turn, is divided into three major parts: $17 billion is in state and local government retirement systems, about $2 billion is in union-managed and other multi-employer funds, and, finally $25 billion is in non-insured, or trusteed, corporate pension funds. All of these three categories are actual or potential sources of funds for investment in mortgages and real estate.

Within these three categories are large funds and small, with highly variable present and prospective investment policies.

Many have the mistaken idea that most non-insured pension funds are managed by labor unions. Actually, by far the greater share is in company-managed funds. Typically, the union-managed funds are those in industries and trades in which the employer units

(Continued on page 39, Column 2)

The Grand Illusion: That Spending Can Do Everything

Our interest-bearing debt is $90 billion greater than that on the 67 other free world countries combined; our budget increased 25 times in 30 years; these and some other telling facts which Mr. Stans musters bring home just where our ways of the free-spending years have led us.

By **MAURICE H. STANS**
Director of the Bureau of the Budget

IN THE past quarter of a century this country has drifted to a state of mind concerning the role of the Federal Government that has altered our political mentality. We have become hardened to financial practices in Government that we would not think of in our private affairs. We have dug up a variety of excuses for disregarding fiscal prudence. We have been bemused by the delusion that if the money comes from Washington it is the other fellows who provide it. We have succumbed to the miracle theory of Government spending—that money will buy everything, and more money will get it faster. We have abandoned time-proven beliefs in frugality, thrift and self-reliance in exchange for economic nostrums that promise more for everyone from a Federal free-lunch counter. And the result is that today we are faced with fiscal problems that can no longer be

covered up by the smoke-screen of rationalization. We need to face them in the open before we succumb further to those who would promise us more and more without thought of the cost.

Meanwhile, a new fantasy is being spun for us. The advocates of bigger Government have now adopted forced economic growth as the excuse for abandoning our present national policy of fiscal responsibility. Using the familiar technique of "alarm and divide" they tell us that we'll lose the economic race with Russia unless we turn on the spending spigot and let it run. We're told that needs are being neglected while the country is growing fat with self-indulgence. We're told that a little inflation is all right, and needn't worry us. We're told to disregard deficits and debt, because everything will be fixed up after a while.

This is just the old doctrine of spending ourselves into prosperity, if we will only recognize it. It hasn't worked yet, and it has failed many times, in many countries. It is trapdoor economics, pure and simple.

And let's not make the initial mistake of exaggerating the real significance of recent Soviet economic growth. Of course, they have made gains in industrial output. The Industrial Revolution has just begun to have meaning for them. But there are vast differences between the two economies. Everyone knows that. Their percentage rate of growth starts with a very much smaller base than ours, and their actual increase in the absolute amount of goods and services produced each year is much less than ours. I don't see any likelihood of their catching up to us in seven years or 27 years, unless we make it easy for them by defaulting on all the economic principles that have made us great.

Growth is a legitimate and proper goal, but it should not be a cloak to cover irresponsibility in Government finance. And Government has a role to play in achieving growth, not by using mirrors or hat tricks, but by relying on the interworkings of free enterprise in an atmosphere of incentives for performance.

There is an institution in American journalism known as "Believe It Or Not," where you can read about some astounding facts of life. I have my own version of "Believe It Or Not," applied to our Government finances, and right here I'm going to expose it.

First, the Federal budget has grown 25 fold in just 30 years—from $3 billion in 1930 to $9 billion in 1940, to $40 billion in 1950, and to almost $80 billion in 1960. Simple arithmetic shows that if the trend were permitted to continue we would have a Federal budget of $160 billion by 1970.

Second, our interest-bearing debt of $285 billion exceeds the combined debt of 67 other free world countries

by about $90 billion; the per capita national debt of the United States is higher than that of any other free world country for which figures are available.

Third, even that is far from all we owe. Add to this our already-enacted commitments to veterans and our unfinanced liabilities for Government employee and military pensions—all for past services—and our fixed commitments for future benefits and subsidies, the Federal Government's mortgage on America's future, works out to $750 billion; and this doesn't include future tax increases already scheduled to finance the social security system.

Fourth, the pressure on the Federal budget from special interest groups for more spending is relentless. Just as one indication, major bills introduced during the last Congress would, if enacted, have added $50 to $60 billion a year to our present spending. The advocates of these new programs are all very sincere. But each feels that his particular concern should be met right away, ahead of the others, and they don't stop to figure out how the money is to be found. Everything they propose has its merits, but taken together they add up to far more than we can finance at a given time with the resources available.

Fifth, even without any new or expanded programs, future annual budgets are headed upward. Built-in increases in many existing activities, from outer space to veterans' pensions, and from public works to overseas economic loans, and many others, will push expenditures higher year after year. In making up the 1961 budget we found that uncontrollable built-in increases came to more than $2 billion; there will be a further $1½ billion in 1962. And past experience gives us little hope for the reduction or elimination of any going programs.

Sixth, interest on our Federal debt now takes up 11 cents out of every dollar in taxes. In fact, we pay more for interest than for farm price supports or veterans' benefits. And we're not succeeding in improving this condition very much. Common sense would tell us that deficits and debt increases in bad years should be made up by surpluses in good years, but when we tried to gain back some of the $15 billion we went in the red in the 1958 recession, Congress was unwilling to go along with the President's proposals that would have given us a good-sized surplus this year.

Seventh, our international balance of payments has been adverse by a total of $10 billion in the last three years. This means we have created that much more in claims against us by other countries than our claims against them.

Eighth, although inflation is now checked, its threat persists. Nearly half of the free world countries have suffered inflationary price increases of 50 per cent or more in the last 10 years; this is a kind of sickness that is catching and we have no assurance that it can't happen here.

I don't say that we've gone beyond the point of no return. I do say that these are danger signs. These trends have solidified on the basis of commit-

ting big liabilities for the future without facing up to the necessity of finding the money to pay for them. We're practicing Government by credit cards, and we're hardened to living beyond our income—in the last 30 years we have paid our way only six times and have borrowed to pay our bills 24 times.

In summary, these are a few of the hard facts of fiscal life in the Federal Government.

- Spending is pleasant and deficits are easy to come by;
- Surpluses are hard to come by and they never catch up with the deficits;
- Interest costs are higher than any other class of Federal expenditures save those for defense;
- We are already committed to spend incredible sums in the future for past services;
- Higher levels of spending in the future are built into present programs;
- There are tremendous pressures to get the Federal Government to do still more; and
- There are all too few who are willing to face up to the problem of how to pay for it all.

And yet the reality is that today's promises are tomorrow's taxes!

So, believe it or not, we have our work cut out for us to keep this Government of ours solvent and capable of meeting the tests that are headed our way in the Sixties. It's going to take endurance, and understanding, and a belief in sound principles to get us through.

It comes down to this: While we recognize that we have a determined antagonist beyond the Iron Curtain, we must not forget that we have enemies at home who will bear watching. I call them the Four Horsemen of Economic Destruction—

- Compulsive spending — which has helped to multiply the Federal budget 25-fold in just 30 years;
- Government-by-credit-card — which has helped to pile up a huge national debt;
- Cancerous taxation—which erodes initiative;
- And the final destroyer, Inflation, which unless it is held in constant check can wipe out the value of our savings, pensions and insurance, and cause untold suffering.

These are the forces that can weaken us from within, unless we rec-

ognize them for what they are, and deal with them as enemies.

To hear the arguments that one hears today, you would think that fiscal responsibility means putting an end to social progress. I have never been able to understand why we should have to be defensive about fiscal responsibility. It is the constructive way to solid growth, and not a philosophy of unconcern for the Nation's needs. Look at the record!

In the past seven and one-half years, under a President who has fought hard for restraint in spending, despite all pressures, and has managed against odds to produce three balanced budgets out of six—with a fourth hopefully coming up—and one big tax cut, here's what has happened in this Nation:

- GNP is up $90 billion in constant dollars, to a record-smashing $500 billion;
- Savings of individuals have increased by $70 billion;
- Employment has hit an all-time high of 68.7 million in July, a gain of 6.7 million over the corresponding figure for 1952;
- Classrooms in public elementary and secondary schools have increased by an estimated 400,000, without Federal intervention and control;
- Federal payments to individuals for welfare and veterans' programs, including social security and similar trust fund payments, have grown from $11.7 billion to $26.4 billion from 1952 to the 1961 budget;
- Expenditures for natural resources development and conservation have reached all-time high levels;
- The 1961 budget includes the highest program in history for scientific research and development at $8.4 billions, several times the amount spent in 1952.

That gives a taste of the positive side of fiscal responsibility. Everything I've said underscores the fact that far from stifling social progress, prudent management is what makes progress possible.

Don't let anybody state that fiscal conservatism is a "negative" force. Far from it. It's a process which finds and rejects the nonessential, the superfluous, the marginal, the outmoded, in order to find the right priorities for America and back them to the hilt. That's the definition of fiscal responsibility in a free enterprise society that was built and handed on to us by Americans who worked hard for their dollars and knew their value. I believe in it, and I think most of us do, too.

In short, I submit that in Government finances there is no acceptable alternative to dynamic conservatism. Any other choice means speculation. In plain words, that means gambling with our future as a nation. Within conservatism there is ample room to take up new ideas, to move ahead as we can afford to do so.

Everything I've said brings me to this conclusion: A solvent America, militarily, economically and financially secure, cannot be brought about just by Presidential exhortations or vetoes, nor by speeches by Budget Di-

rectors. America must *want* it and be willing to *demand* it. This is the responsibility of every American. In the months and decades ahead, the American people have to make a choice between two kinds of Government.

One is to legitimize the cult of spending, and reject finally the standard of fiscal responsibility.

This means accepting the deficit mentality as a basic national philosophy. It means a willingness to saddle the future with even greater liabilities and obligations. It means giving Government a blank check. It means Government-enforced economic planning, a path leading directly to economic controls. It means an open flirtation with inflation. It means Government with a big front and an empty purse.

If that's the road we elect to go down, we'll be paying a high price for our thrills. We'll pay in the loss of economic freedom, in less value in our dollar, in more drain on our gold supply, in all the sacrifice and loss of values that go with inflation, in the destruction of free world confidence in our capacity to lead wisely, and ultimately in the decline of our strength and vitality in this age when Western man is being put to his greatest test. This is nothing less than a game of Russian roulette with the life of a nation at stake.

Well, what's the other alternative?

It's not so glamorous, perhaps, but it's built for endurance, for security, for strength.

It's disciplined Government which doesn't consider thrift a discredited word. It is Government which is prepared to seek out the right answers to our problems, in the right priorities and within our ability to pay, instead of the pressure-group solution. It is Government that can recognize danger signs and avoid financial brinkwalking. It is Government that won't get in the way of sound economic growth, but will achieve it by encouraging free enterprise instead of stifling it. It is Government that believes, with Lincoln, that it should do for the people only those things that they can't do as well for themselves, not in the centralization of all wisdom in Washington. It is Government that believes in sound money, that debts must be paid, that the budget should be balanced in good years, and that the Treasury is a trust, not a gift shop.

President Eisenhower outlined his choice for "the way of responsible government" in four short propositions:

"It must not use the taxing power to weaken nor tyrannize the private economy.

"It must not resort to the borrowing power to escape the sacrifices that go with responsibility.

"It must not delude the people into taking the deceptively easy road of deficit spending, unbalanced budgets, or inflationary fiscal policies.

"It must not use the power of appropriation falsely to offer the people something for nothing."

These are principles we can all understand.

The American people, then, must choose one way or the other. And in choosing, they should remember this lesson from history: While economic soundness may not guarantee a nation greatness, no nation has ever been great without it.

So what we're considering is not a narrow domestic question or a balanced budget versus one that is in the red, but the whole question of the long-time strength of the nation. Our adversaries know that well.

Mr. Khrushchev has made it clear. He has predicted that our way of life will break down, not on the battlefield but through our own failures. He has said that our democratic free system is decadent and that communism will bury us.

I think we had better not ignore that prediction. What we need most of all today is to be true to our values and find the discipline, the dedication, and the determination which free men have always summoned when necessary. Then, and only then, will we meet our responsibilities as a free people. Then, and only then, will we marshall our full strength to answer the Soviet challenge. Then, and only then, will we prove emphatically to Mr. K. that when all is counted our system is the best.

Condensed from remarks before the American Gas Association Convention.

NEW MONEY IS AHEAD FOR URBAN RENEWAL

Yes, and it's money that hasn't previously been interested in urban renewal for investment. It's coming—and maybe a lot of other developments in urban renewal are just around the corner, developments which may make 1961 a landmark year in getting this gigantic national effort really off the ground. Recently the U. S. Chamber of Commerce sponsored a National Redevelopment Symposium in Hartford devoted to private industry's responsibility in the effort. Hartford was appropriate—it's old, 325 years old, goes way back in American history and, all agree, is ripe for some real urban renewal. And that's what it's getting. The first stage of its master plan—and the largest Title I project in New England—is under way and calls for construction of Constitution Plaza, a 12-acre downtown redevelopment project to include three office buildings, hotel, retail shopping court and underground parking space for approximately 2,000 cars. The new business complex is financed through a $35,000,000 investment by The Travelers Insurance Companies and is scheduled for completion in 1962.

Hartford is but one shining example—and its new project will prove its economic soundness. In 1957, the blight-ridden 12-acre section had a total assessed valuation of less than $3 million and was returning only $90,000 annually in tax revenues. By the end of 1962, it will have a total valuation of between $35 and $40 million and an assessed valuation of over $23 million. In a single year—1963—Constitution Plaza's taxes will come close to canceling out the $1,300,000 bond issue the taxpayers voted as the city's share of acquiring land for redevelopment.

But, as U. S. Chamber President Arthur Motley took pains to point out, too much urban renewal so far is talk, planning, wishing, dreaming. Planning has started on about 700 federally-aided projects embracing 417 communities—but only 36 have been completed and only 65 others scheduled for completion in 1960 and 1961. No wonder Motley laid the cause for such failures on the community doorsteps!

"Some cities," he observed, "using federal funds, have acquired so much land without rebuilding that the Housing and Home Finance Agency has become the nation's largest grower of ragweed."

Roger C. Wilkins, vice president of The Travelers, and president of Constitution Plaza, Inc., emphasized the need for the investor in urban redevelopment to assess the benefits such a commitment will yield in terms of the improved general welfare of the community as well as a fair return on the investment made.

The mortgage loan department he heads currently has more than $980 million outstanding in mortgage loans. Investors must recognize, he said, that the financing of urban renewal projects or programs will yield real benefits by strengthening the economic health of their communities even though such investments may not yield maximum speculative profits.

"As citizens of any given community, it is in our own best interests to see that the city has a vigorous economic and social climate."

Mr. White was at the Symposium and gave the views recorded here about the new sources of money he sees going into urban renewal. And there is plenty more stirring. Mr. Dovenmuehle, in this issue, speculates on the possibility that a real estate investment trust might possibly be organized to finance a spectacular project in Chicago, sure to become a U. S. show piece of its kind. New small business investment corporations have had a remarkable growth recently—financing from them is a luring possibility. Yes, 1961 just might be the year to get this effort off the ground in a big way.

TRADITIONALLY, mortgage financing has been regarded as the most essential factor in a building operation involving the construction of the typical urban property, such as an apartment house or office building. The successful builder has not lacked for equity financing, as a general rule, over the last 15 years. Cash has been relatively easy to obtain from investors anxious to participate with skilled and experienced builders in a real estate operation. The builder regarded **his principal problem** as one of obtaining what he considered to be a sufficient mortgage loan for the proposed construction. On many occasions over the course of these past 15 years, mortgage lenders have been hard-pressed to meet the voracious demands for mortgage money characteristic of an expanding economy.

Times have changed, however. No longer is a sufficient supply of equity financing always available for every building venture. What has produced this change from an economic climate of an abundance of equity capital to a condition in which equity capital is relatively more scarce? One obvious cause: inflation. With each passing year in the post World War II era, we have seen successively higher costs for building operations. Accompanying higher building costs, there has been substantial appreciation in the cost of land. An even more important factor is that typical building projects have become much larger in size than anyone would have imagined only 10 years ago. For example, a client of ours intends to construct a minimum of 4,500 middle-income cooperative apartments in New York City. This

By JOHN R. WHITE
Vice President, Brown, Harris & Stevens, New York

building venture will cost close to $100 million, an unheard of sum for residential construction just a few years ago.

The vast size of Title I urban renewal projects in the many cities throughout the United States has also been responsible for this increasing shortage of equity financing. Not only is the typical Title I project large in size, it is also frequently located in a downtown section where the chance of successful upgrading is excellent. The results of this type of upgrading are everywhere evident throughout the country. We see it in Hartford in the form of the giant Constitution Plaza project. We see it in a relatively small town such as New Brunswick, New Jersey where a $15 million in-town shopping center is being planned for a 9 acre commercial urban renewal site in the heart of the central business district. This problem has been intensified by the quickening phase of urban renewal activities.

The typical builder of commercial and residential real estate simply did not have sufficient equity capital, even after pooling his own cash with that of acquaintances and friends, to handle the larger urban renewal projects. As a result, many of them lay economically fallow, unable to be built, because no building organization seemingly was willing to undertake a building venture of such magnitude.

Of course, it cannot be said that the relative lack of equity financing was the sole reason why some urban renewal projects never got off the ground. It can now be said, however, that no project should fail to materialize because of a lack of equity capital. What has happened to change this situation?

In the first place, syndication is playing an increasingly more significant role in new construction as well

Some Facts to Face — Some Problems to Solve

Said David Rockefeller, vice chairman, Chase Manhattan Bank, New York, and chairman, Downtown-Lower Manhattan Association, Inc. at the Hartford Forum:

▶ THE MONEY NEEDED: In 1956 there were four million sub-standard living units in metropolitan areas, and 13 million more in the nation as a whole. If you will take only four million sub-standard units in metropolitan areas, and calculate what it would cost to replace them today, I think it becomes evident why private capital must carry the major portion of the burden of replacement. As we drive past the acres and acres of newly-built suburban developments, one is impressed by their numbers. But it is worth knowing that despite what has been done since the War, more than half of the houses in the country (approximately 17 million in metropolitan areas and 30 million in rural communities), are already at least 30 years old . . .

There are some 6,400,000 sub-standard dwelling units which will need to be replaced, and another 2 million units, together with supporting facilities, will require rehabilitation. At current building costs, it would take $120 to $125 billion dollars to accomplish this task!

▶ JOB TO BE DONE: But what are the prospects that private funds, with public support, will be forthcoming in sufficient volume to cope with urban blight? It is true that banks, insurance companies, pension funds and other types of lending institutions are already making considerable funds available. They have been encouraged and assisted in their task by a variety of Federal and State statutes. Particularly effective have been loans and grants made available under Title I of the Housing Act of 1949, and its subsequent amendments and supplements. Title I provides for the write-down of the acquisition price of blighted land so that the land may be resold to a private developer at a price commensurate with its new use. This provision has been of immense value to redevelopers, but has been widely misunderstood by the public. Some people persist in regarding this write-down as a sort of windfall to the developer, disregarding the fact that the developers are required to pay in cash what is considered by the government to be a fair price for the land.

In connection with Title I, the Federal Government supported by legislation in various states, provides for the exercise of the right of eminent domain. Without this power, acquisition of sizeable renewal sites would have been impractical through private means. Too often before Title I, private redevelopment of slum areas was made impossible because of falsely inflated values resulting from the high rents charged for small and improperly maintained tenement flats.

Private investment in modest priced housing has been stimulated to a very important extent by FHA guarantees. FHA has not dealt directly with the problem of slums, but indirectly it has helped considerably through its financing of additions to the housing inventory.

There are certain areas where, I believe, Federal legislation might be further augmented. For example, it might be desirable to broaden Federal aid to permit the renewal of blighted commercial and industrial areas. At present, only 10 per cent of a renewal area may be developed for commercial purposes if it is to qualify for Federal aid.

▶ TAX BURDEN: As taxpayers, we wonder about the division of the tax burden between the city and the suburb. Many are concerned about the obsolete and underused investment in services in the presently less productive or gray areas of the central city. We ruefully tote up the burdensome requirements for the installation and maintenance of identical new services in growing suburbs into which the population is moving. It has been calculated that the capital outlay by new suburban communities for the necessary package of public services ranges from $2,500 to $3,500 for each new house erected!

▶ CHALLENGE: Urban renewal is a challenge to our cities, our people, and, indeed, to our American way of life. Urban renewal represents an investment which will yield returns in property values, but more importantly, in the human values which are basic to the preservation of our national well being. We have no choice but to go forward vigorously in meeting this challenge.

as in the purchase of existing properties. In the original equity syndications of only a few years ago, syndicators were reluctant to offer the general public a parcel of vacant land and anticipate the income to be derived after the completion of a proposed building. Thus, syndication was originally confined to the purchase of existing properties. Now we find that with the increasing popularity of syndication among the public, many syndications are of building ventures in which the syndicator agrees to pay the equity participants a relatively high return during the course of construction as well as a return on the basis of anticipated income after the completion of the structure. It may reasonably be anticipated that at least some of the syndication money will find its way into urban renewal projects.

Another significant development has been the increasing number of publicly owned real estate building and investment corporations, many of whose common and preferred stocks (which, after all, is a form of equity financing) are now being traded on recognized exchanges as well as over-the-counter. It is common knowledge that many of these large real estate corporations which are not now in urban renewal are preparing to participate in many large projects throughout the country.

Another distinct trend has been the increased interest in large scale urban renewal projects on the part of the nationally recognized construction companies, including some heavy construction companies which have never previously built real estate for speculation re-sale or investment. I know of several major construction corporations who have already committed themselves to various large-scale building ventures, some of which involve urban renewal tracts.

Last, we can anticipate an increased participation of the institutional investor, such as the insurance companies in the construction of urban renewal projects. Certainly The Travelers Insurance Company participation in Hartford is an outstanding illustration of how an insurance company of this size is willing to invest in this large urban renewal project and in this manner demonstrate its confidence in the future of downtown.

It is our conviction that financing community development will be substantially aided by the changing character of equity financing. No longer will the large size of the typical community projects be a deterrent to their completion. For example, the publicly-owned real estate corporations and the large syndicators are not as dependent on mortgage financing as the typical builder, an investor who is perpetually shy of cash. Although the public corporation and the syndicator want to obtain as high a proportion of mortgage as possible, they will not fail to build because their mortgage commitments are not as high as they had hoped. Obviously they can easily make up any deficit represented by a smaller mortgage loan by increased equity participation on the part of the general public. We can also expect that the typical institutional investor will be building generally for cash and will have these funds available for the construction of the sorely needed community improvement programs.

Why have I stressed urban renewal in commenting on the large-scale nature of these various building programs which we are experiencing throughout the country? First, it is specifically the responsibility of the private industry for urban renewal. Second, financing community development implies the use of urban renewal as a tool to help rid the city of the blight and decay which has so adversely affected residential and commercial real estate, particularly in the older core areas. There is an increasing consciousness and awareness of the responsibility which all of us have in planning for the redemption of downtown. No community can continue to be economically vibrant and healthy with a degenerating central core area. I am encouraged to see this increasing awareness, not only on the part of the local community, its municipal officials and civic-minded citizens, but also the growing realization on the part of all financiers including mortgage as well as equity investors.

We can expect an increasing marketability for urban renewal sites. Many factors lead to this conclusion. Certainly over the course of the last 10 years we have learned to relocate families and businesses more effectively than in the past. We have also learned to plan land uses for urban renewal sites that are practical and feasible and which may readily be absorbed in the marketplace over a reasonable time period. But still the most important factor of all is the willingness of mortgage investors to demonstrate their confidence in the future of a carefully-planned downtown by agreeing to invest their funds in this essential redemption process.

Real Estate – Prospects,

Except for brief periods of pause, and spotty conditions here and there from time to time, the nation still moves along in the longest era of intensive real estate activity it has ever known. In some areas, such as single family house construction, the record has been so phenomenal that even the most optimistic would scarcely have predicted the extent of the performance. In other areas, such as shopping centers, development has been proportionately even more sensational. What's the outlook now—for all the various areas of activity which make up the vast field of real estate. For one opinion, let's take the views of a man who isn't even in real estate—Mr. Dovenmuehle's firm is that rather rare company these days that does nothing but mortgage lending. But he's close to all real estate developments and this is how he sees it, as related to ABA's Mid Continent Trust Conference.

Homes and apartments are subject to similar influences; if we create housing for new families, or even place them in a new location, we create a need for stores and shopping centers. We then need more factory space for the employment of the new residents; we need new schools, churches, hospitals, more transportation facilities, more utilities, theatres and finally more office space for administration of all these facilities. We are talking about the biggest business in the nation and we can't do this intelligently without also discussing the money which will be used—the terms and the sources of such funds.

The sale and construction of housing will not be limited by lack of money. Family incomes are now so high that 11 million families can now afford a home priced at $17,500 or twice as many as now exist. The volume of house construction will be limited by the sales effort brought to bear on an owner who does not have to buy—by stimulating his desire to own a new home, a larger home or a better home at a price which indicates value. At a recent convention of home builders the sessions devoted to mortgage lending and legislation were empty, those devoted to sales methods were filled. They talked of better construction, a 5-year warranty of both labor and materials. Compe-

ts, Problems and Potentials

As They Look to One Observer

By GEORGE H. DOVENMUEHLE
Chairman, Dovenmuehle, Inc., Chicago; Treasurer of MBA

tition is here with a vengeance and we are in what I consider to be a perfectly normal market.

I do not anticipate a large increase in public housing in 1961, probably less than 30,000 units and in spite of political promises, simply because it takes so long to get these plans off the drawing boards into construction. We will see a large increase in 1962.

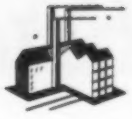
Some figures indicate an approximately 7½ per cent vacancy ratio in apartment buildings in the Middle West. Most of the vacancy exists in old buildings, poorly maintained, where no modernization has taken place. Let me illustrate the importance of management and wise, farseeing ownership. A year and a half ago a very large apartment project where my firm had the loans, showed a vacancy of 18 per cent. Modernization and simple maintenance was neglected on the theory that people preferred to live cheaply. The owners decided on a new policy. They spent money prudently but in large quantities to modernize kitchens, with new stoves, ice boxes and sinks and they made other improvements. They advertised aggressively and sought tenants by personally calling on industry. Today, in spite of greatly increased vacancy elsewhere, they have a waiting list in every type of apartment. Now they are making new improvements on condition that the tenants pay a substantial increase in rents. Over 20 per cent have signed up and their construction crews can't keep up with the demand. People simply want better living conditions, and most of them can afford to pay for them. Last June in our area the FHA surveyed the vacancy rate in apartments covered by their loans and the vacancy rate was 1.6 per cent. Today the vacancy in most types of well located modern apartments is less than 3 per cent and this we consider quite normal.

I am convinced we will show an increase in apartment house construction, but note this—we will have a 50 per cent growth in the 20-24 age group during the next 10 years. The age groups 55-64 will grow 18 per cent and over 65 will grow 24 per cent. This contrasts with approximately a 16 per cent overall growth in the same period. The young and the old will in a large measure want apartments. The young and the very old will want small units. After the children arrive, many of the young will move to the suburbs for more space. And many of the old will continue to move back into the core of our cities. I foresee a continuing healthy demand for well-located, well-arranged apartments in the central core of our cities and a continuing demand for apartments in the suburbs where, because of zoning restrictions, somewhat of a monopoly situation exists. Recently a group of suburbanites of about my vintage decided to sell their homes and build a luxury apartment on the lake front, but still in the suburbs. This was done on a cooperative basis. All these apartments were purchased at once, but it is interesting to note that a limit was placed on widows. They know full well that time will create more widows—and too many widows will make it an unsuccessful venture.

Most large cities lost population in the last decade because of the flight to the suburbs. Our suburbs have doubled almost everywhere. I do not predict a large increase in our big city populations—there isn't enough good land, but I do predict much better living, simply because people demand it and can afford it. The "New Republic" magazine summed it up this way:

> "What do I want as a resident of an urban area? My wishes are simple and reasonable, I feel. I want to live in a handsome garden suburb, with congenial neighbors readily available, who shall however be silent as death from 10 P.M. every night until 8 A.M. the next morning—and also in the daytime if I elect to work at home. I want a completely rural atmosphere, but I also want it to be only 10 minutes from the heart of the city. I want to drive my own car into town every day, taking up enough room on the road to carry 40 people in a bus. I want ample parking available free of charge within 400 feet of wherever I want to go. I want

to travel back and forth over multi-million dollar highways, for which I certainly don't intend to pay, and I want them to be very little used, even at rush hours, so that I can traverse them practically in solitary grandeur. I want wonderful municipal services, at tax rates about half the present ones."



Shopping centers will go right on but there will be more smaller ones; industrial building won't be so active; more office buildings are in the cards for the future.

We have learned from our mistakes and I forsee the fulfillment of many of our desires right in our big cities. This is not in the future — it is here now and promises to be more inviting each year. Chicago had led the way in developing the necessary tools for land planning, condemnation land clearance, conservation and now we are beginning to re-build. Chicago has just announced a new city within the city for 75,000 people on our near south side. I hope to participate with a group to rebuild 23 acres on the north side next year. If our group is the successful bidder, we will convert an old slum into a scene of gracious living, where cars must be parked out of sight, where people will walk through gardens rather than on the streets, where we will, in fact, combine gracious suburban living with the conveniences of the city. Talk to many, many apartment dwellers and you will find a common complaint—"We don't meet anybody." People want to be friendly and we can give them an opportunity to be gregarious by creating gardens, swimming pools, small community centers, and so they will "meet somebody."

I believe that we will see a few more housing starts next year—possibly 100,000 more than we have had this year. A very healthy number, but still far from a boom. Let us not overlook modernization—homeowners will spend $15 billion for modernization this year, almost $1 billion more than last year. In 1950 homeowners spent $10 on new construction versus $1 for modernization. Today that ratio is 3 to 2, a welcome change which the mortgage industry is encouraging. Housing, like other heavy consumer goods, will realize its full market potential only when employment and economic confidence are high.

FHA Section 207 for building new apartments will be widely used. Sections 220 and 221 for rehabilitation and relocation are now widely used and Sections 231 for the elderly (over 61) and 232 for nursing homes are already beginning to fulfill their purpose. Our housing renaissance is now working for all groups of people, not just for the newly formed families as in the last 10 years. It is a much healthier and more permanent development.

Shopping centers will continue their spectacular success, but I believe we will, in the main, develop smaller ones in connection with housing, not so many very large ones. We have over 4,000 shopping centers in the country now and many estimate that we will add about 700 new ones each year of modest size and perhaps 25 large ones. We still like motels, but they must be unusually attractive and we like them a lot better if they can demonstrate somewhat of a monopoly situation, something which would be hard to duplicate. They will continue to affect hotel operations adversely.

Industry will continue to build but the rate of growth will not be so feverish. In the Chicago area we spent well over $3 billion on industrial development in the last 10 years—we now produce $28 billion of goods each year, or as much as either all of Japan or Italy. The entire Middle West has made great gains and we must expect a more normal growth from now on. We will create many new jobs, but for some time to come more than one-half of our new jobs will be for services and not for factory output.

Now regarding office buildings which I call the administrative branch of our economy. In New York City new office buildings have been constructed at a feverish pace. In most cities, certainly in the Middle West, we have had a steady wholesome growth. In fact, much of the new construction has been and is being undertaken by institutional bulk space users, such as banks, insurance companies and large industrial corporations. So far new construction has paralleled growth or demand and we have avoided an over supply of space. Here again good management which offers adequate service, improved work comfort as a result of air conditioning, good lighting, cleanliness, and reduced noise levels, will hold tenants in the foreseeable future. Here are a few interesting facts concerning the central area in Chicago. As of October 1st we show an overall occupancy of 95.67 per cent compared with 94.61 per cent a year ago. Our space is now 65.76 per cent air conditioned. The air conditioned space is 97.43 per cent occupied—non-air conditioned, 94.35 per cent occupied.

Every major city needs an attractive, modern central core. With it, the major tenants will stay and more will be attracted; without it, these tenants will depart for outlying areas, the central core will decay and the city will disintegrate. Most of our cities realize this and we are now producing better transportation and adequate parking. I predict a steady, healthy growth in our modern office facilities.

Our new families are now being formed at the rate of 900,000 a year. In about four years our new family formations will exceed 1,250,000 a year and continue at about this rate for the balance of the 60's. Our demolitions will increase each year to build our highways and to rebuild our cities. In order to finance all of the resulting new construction, it is estimated that our mortgage debt will more than double in 10 years.

Where will the money come from?

Four-fifths of all our mortgage money now comes from four sources —the savings and loans, the insurance companies, the mutual savings banks, and the commercial banks. Only the savings and loans are growing at a rate commensurate with our needs. All signs indicate that the other three will grow at a slower rate, not at a pace to satisfy completely our future mortgage requirements.

Obviously, we must look to new sources, to the individual, the trusts,

the foundations (including church, charitable and college funds) and the pension funds. Here we usually find an unfamiliarity with mortgages and a fear that the servicing of mortgages creates insurmountable trouble and expense. It is the job of the mortgage banker to allay these fears. At the MBA Seminar in New York for the pension funds, we sought to acquaint them with the modern methods of handling mortgages, the efficient single debit system of accounting and the speed and accuracy of the machines which have been adapted to our work. We thought we would be lucky if 25 pension supervisors showed up; instead 120 came from all over the country and demonstrated intense interest as well as a knowledge of our business far greater than we had anticipated. We showed them methods of reducing work still further through the collateral trust and other similar simplified devices.

A few years ago my company, together with 23 other mortgage bankers throughout the country, formed the Investors Central Management Corporation primarily to serve the large pension funds. We handle only insured and guaranteed loans. We can take an investment order for any amount and ask the investing fund simply to specify the amount wanted in any city—the kind of house the fund wants to lend on, the credit it will expect to approve. While we do give this fund the right to inspect houses if it wishes, to analyze individual credits, we try to make life very simple. The fund never needs to handle mortgage papers unless it wishes to do so, for we will give the fund a bonded warehouse receipt and a legal opinion from a top New York law firm. We assemble all the fund's monthly payments in New York and send one check each month covering all principal and interest received from all the cities, as well as a combined single debit statement. Our system is working very well. Our investors include Morgan Guaranty, Bankers Trust, Hanover Bank, First National Bank of Chicago and such outstanding pension funds as General Motors, American Radiator, and others.

We have just begun to tap the funds of the pensions and foundations. We know—and they are beginning to

Looming big on the horizon are the pension funds which are going to supply a great deal of the investment funds we will need for growth and expansion.

realize—that we must look to them for a large share of our real estate mortgage requirements. They will play a large part in the rehabilitation of our cities; in fact, they are already buying loans insured by FHA for this purpose. And the union leaders have now pledged themselves to use their pension funds for this purpose as well as to spur home ownership. Truly an exciting era is opening!

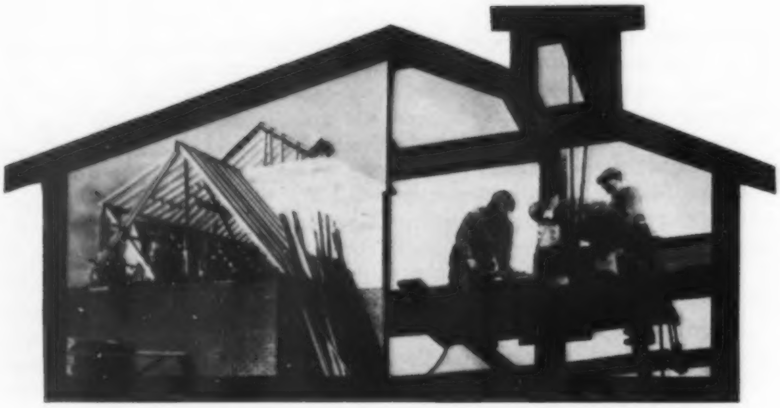
Many have observed the formation of small business investment companies all over the country without realizing that here is a new vehicle for the financing of real estate. In many cases, more than one-half of their funds have been allocated for the development of real estate. We have just formed one in Chicago. My company will be a participant and I will be a director. We will be joined by Commonwealth Edison Co., Chicago Title and Trust Co., Continental Assurance, Central National Bank, all of whom will furnish directors; top industrialists will be with us as stockholders and directors. Booz Allen & Hamilton will contribute a director and the head of Armour Research Institute will also be a director. This formidable company, known as "Business Capital Corporation," will come out with a large public offering and I have hopes of interesting this company in the redevelopment of the 23 acres on our near north side which I have already mentioned. Much, of course, remains to be done but I mention it to illustrate the fact that a new vehicle for furnishing equity capital is available and the public will participate in these ventures.

One week after I had agreed to become a sponsor in the redevelopment of the 23 acres mentioned, another group of entrepeneurs asked me to join with them in making a bid for this property. Obviously, I couldn't do so but it is interesting to note that they planned to finance under the new Real Estate Investment Trust Act and had found a large underwriting house to sell such an issue to the public. Not everyone realizes the importance to real estate of the amendments which were passed by Congress in the last session. The directors of Chicago Title and Trust Co. considered this change so important that they made it clear to management that the Chicago Title and Trust Co. must be *the* authority in the country for this act and all the regulations pertaining to it.

Mortgage men are working now to make use of an R.E.I.T. to obtain money from the public for investment in mortgages. I hope at the start that these investments will be confined to insured and guaranteed mortgages. Until proper restrictive regulations are issued, it appears to us that it is possible to place this money in 100 per cent mortgages and we could very easily get into a wild orgy of lending. We hope and believe that proper regulation will permit us to compete with other forms of investment and give the public a satisfactory yield with wonderful security.

Many large real estate owners today are looking upon these new trusts as the new Santa Claus where they can dump their properties at fantastic prices upon an unsuspecting public. But with proper regulation this new legislation can easily be the most important event in all the annals of real estate procedure. Real estate owners have always received comparatively high returns because of lack of marketability. I can envision trusts with assets of well over $100,000,000 whose shares are traded in every day in all our markets. Such trusts will bring liquidity to real estate and because of this ready market, real estate may in the future be capitalized at a much lower rate—possibly 1 per cent less than we now use. Such trusts can bring to real estate new sources of money in quantities beyond our fondest dreams and can truly help to bring about the economic growth and the rehabilitation so badly needed in our urban areas.

In Mortgage Lending There Are Ties That Bind



More and more, in many diverse ways, mortgage lending becomes more regulated. While the unregulated sector declines, the supervised sector expands until today, in Mr. Morgan's opinion, no part of the investment market "operates under more laws and rules promulgated by government."

By **ROBERT M. MORGAN**

Vice President, The Boston Five Cents Savings Bank at ABA's Mortgage Workshop in Boston

THE whole field of mortgage lending is today surrounded by, and bound in with, governmental permissive and prohibitory legislation and regulations. Perhaps no sector of the investment market operates under more laws and rules promulgated by government.

The unregulated "individual" lenders are becoming less important, and the so-called supervised lenders are handling a larger share of the business. The total mortgage debt held by "individuals and others" declined from 40.9 per cent in 1945 to about 23 per cent in 1959. The remaining 77 per cent of all mortgage debt is held by institutional lenders: commercial banks, 15 per cent; savings and loans, 28 per cent; life companies, 21 per cent; and mutual savings banks, 13 per cent. This total is all subject, in varying degrees, to state or federal regulation—and in some cases to both.

Not only is a larger share of mortgage lending falling under regulation, but in addition a larger proportion of the debt itself is federally insured or guaranteed and therefore subject to direct regulation. In 1945, with a $35.5 billion mortgage debt outstanding, FHA and VA paper accounted for only $4.5 billion or about 12 per cent. By 1960, of a total outstanding mortgage debt of $191 billion, federally-underwritten debt amounted to $59.3 billion, or 31 per cent.

Let's consider the effects of regulations on each of the institutional lender groups separately.

Historically, commercial banks, and particularly those operating under federal rather than state supervision, have been more restricted in their mortgage lending by lower ratios of loan to property value and by shorter term of loan than have other lenders. Although there has been some liberalization in recent years, it is not at all clear that any substantial number of commercial banks have really *wanted* to become more active in the mortgage market — feeling, perhaps quite properly, that they would prefer to employ their funds to greater advantage in the commercial loan department. This position has undoubtedly been reinforced and influenced by the fact that the federal examiners have a habit of looking at the real estate loan portfolio with a jaundiced eye, possibly feeling that this section of the loan total is not as liquid as they would like it to be. If this has in fact been the position of the average commercial bank, then the limi-

tations imposed by law and regulations surrounding the making of mortgage loans have not acted as a prime deterrent to maintaining a mortgage portfolio; and the commercial bank has been and is now least affected by changes in mortgage legislation and administrative regulations.

For those commercial banks which have been mortgage-minded, the field of interim financing has offered a real opportunity to handle the business at the wholesale level against firm takeouts by final investors—this operation providing a full participation in the business with a minimum of risk of getting locked into long-term paper.

Perhaps, then, it is the other institutional lenders, the savings and loans, the life companies, and the mutual savings banks which are most affected by mortgage legislation and regulation. Let's consider their position.

Prior to 1933, the principal regulation of mortgage lending was through state law governing thrift institutions of various types and life insurance companies as to the percentage of deposits which might be invested in mortgages, the ratio of loan to value, and the term of the loan. With the advent of the Home Loan Bank came a centralized measure of federal regulation for all members of the system, setting up standards for banks and for the mortgages made by them.

But it was FHA legislation in 1934 and subsequently the G.I. Bill which brought an entirely new factor into the picture—a fixed interest rate attached to particular types of mortgages. As a part of the price to be paid for insurance or guaranty, the government would also prescribe the interest rate to be charged. In the rigidity of the thinking back of the fixed-rate philosophy there was no provision for adjustment to meet the flexibility required in competition with other sectors of the money market. As a matter of fact, further effort was made at one point to insure the rigidity of rate by a regulatory prohibition against the charging of discounts. The fixed rate on VA mortgages has of course been adjusted from time to time by act of the Congress but always tardily—and without direct reference to actual money conditions. The VA has amended its regulations periodically as to discounts so as to assist in obtaining funds for its program. FHA, not as restricted as VA, has within limits tried to adjust its rates more nearly to market conditions and, having a considerably longer and wider background of experience in the mortgage field, has probably done as satisfactory a job of it as could be expected under difficult circumstances.

But the fact remains that the inflexibility of rate (even allowing for discount) on the insured and guaranteed mortgage has put and kept the savings and loan associations' activity at a minimum in FHA and VA and has been instrumental in encouraging them to push heavily for conventional loans in their own local areas, thereby increasing the competition between the local lenders with a tendency to stretch the ratio of loan to value to the limit.

"It is inconceivable that our economic system which believes in and relies upon competition in every other field to establish a fair price—autos, clothes, food, and all other supplies of money—should not have the ability and courage to remove the heavy hand of government regulation from FHA and VA mortgage interest rates. . . . A flexible rate would do more than anything else to assure that the guaranteed and insured sections of the mortgage market obtain their fair share of the total money supply. It would certainly relieve the necessity for most of the special purpose programs and reduce the demand for funds for direct government loans."

The savings and loan growth in mortgage portfolio from 1945 to 1960 from $5.3 billion to $53 billion has been remarkable—greater in amount and in percentage than that of any of the other institutional lenders. Despite the magnitude of this expansion, all but $10 billion of it has been in the conventional loan.

The life companies, as of 1959, held $39.2 billion of mortgage debt, some $15.4 billion of which was federally-underwritten. Although as a group they have continued active in the FHA market, a number of the principal companies have hesitated and refrained from purchasing VA loans at deep discounts for fear of possible misunderstanding or misinterpretation by others of discounts at some future date. This feeling has been shared by other investors with the result that for periods of time the market for VA loans has suffered.

Now a failure of the market to absorb loans carrying rates below those currently offered in the conventional loan field inevitably brings forth demands in the Congress for funds for direct loans—or for so-called special assistance programs. There is every indication that we have seen only the beginning of the pressure for this type of lending. The insurance companies, perhaps more than any other lender group, have recognized the dangers inherent in direct government mortgage lending, and in the limited field covered by the program, have strongly supported the VHMCP program, hoping to combat any need or demand for direct lending. While this action has been extremely helpful, a freeing by Congress of the interest rate on federally-underwritten mortgages would be much more effective in getting mortgage money into the areas in which it is now short. After the fine showing they have made under VHMCP, the insurance companies could be counted upon to make such a program work.

Over the long years of their history, the mutual savings banks confined

Says . . .

Morgan . . .

". . . failure of the market to absorb loans carrying rates below those currently offered in the conventional loan field inevitably brings forth demands in the Congress for funds for direct loans—or for so-called special assistance programs. There is every indication that we have seen only the beginning of the pressure for this type of lending. The insurance companies, perhaps more than any other lender group, have recognized the dangers inherent in direct government mortgage lending, and in the limited field covered by the program, have strongly supported the VHMCP program, hoping to combat any need or demand for direct lending. While this action has been extremely helpful, a freeing by Congress of the interest rate on federally-underwritten mortgages would be much more effective in getting mortgage money into the areas in which it is now short."

their mortgage lending to their own localities—and would probably be continuing to do so except for the advent of FHA and VA. The introduction of federal insured and guaranteed mortgage paper into the market, starting slowly at first and held back by the war years, has since 1945 become the prime alternate to government debt in the portfolios of most of the large and many of the smaller banks. There has been no diminution in their local mortgage lending but rather a substitution of FHA and VA out-of-state mortgages for governments. The indirect guaranty of the Treasury in lieu of the direct obligation of the government on its own securities appeared adequate to the banks in view of the difference in yield. This out-of-state business, coming as it has on top of the out-of-state volume already developed for the insurance companies by their correspondents, has undoubtedly quickened the competition for mortgages the country over and has materially broadened the market.

The mutual savings banks, as of 1959, held just at \$15 billion of FHA and VA paper, both local and out-of-state, and this accounted for 25 per cent of the nearly \$60 billion of FHA and VA paper outstanding. The importance of this paper in the savings banks' portfolios is further emphasized by the fact that this \$15 billion represents 60 per cent of their total mortgage loans of \$25 billion.

Principally located in the northeastern seaboard states where urban renewal is most needed and most likely to catch hold, there is considerable likelihood that the savings banks, and some of the insurance companies, will in the years immediately ahead be substantial investors in FHA loans on urban renewal projects. Whether the use of funds for such investment will tend to cut down on out-of-state purchases or on other local lending, it is too early to hazard a guess. But, clearly, here is another instance in which the government, through the present FHA sections dealing with redevelopment and renewal, will have a bearing on the shape and extent of competition within the mortgage field.

There still remains the matter which has been plaguing the insured and guaranteed loan section of the mortgage market since its inception—the fixed rates established on FHA and VA loans.

It is inconceivable that our economic system which believes in and relies upon competition in every other field to establish a fair price—autos, clothes, food, and all other supplies of money—should not have the ability and courage to remove the heavy hand of government regulation from FHA and VA mortgage interest rates. Under our system, while it would seem entirely appropriate for the government for its own protection by law or regulation when insuring or guaranteeing mortgage loans to (1) set the standards as to the type of properties which would be encompassed within the program, (2) fix the proportion of loan to value, (3) name the length of term of the loan, and (4) prescribe the rate of repayment, there are no justifiable grounds for regulating the rate of interest itself. If the rates charged are too high, premiums will ensue. If the rates charged are too low, discounts will develop. And competition will act as a leveling force.

A par market, or one close to it, at all times for all current mortgage loan commitments would be a service to all users of that market—builders, sellers, buyers, investors, and government, just as it is in the conventional market. A flexible rate would do more than anything else to assure that the guaranteed and insured sections of the mortgage market obtain their fair share of the total money supply. It would certainly relieve the necessity for most of the special purpose programs and reduce the demand for funds for direct government loans.

▶ ONE VIEW: After World War II there was a housing shortage but for the last decade, the bureau of census reports, the country has built 1.4 to 1.5 million housing units a year.

Today the cries of a housing shortage seem like false cries of "Wolf! Wolf!" the U.S. Chamber of Commerce says.

Best evidence is the bureau's figures on doubling up of married couples. Toward the end of the great depression almost 7 out of 100 married couples lived with another couple. After World War II, the ratio jumped to 9 out of 100. But by last year it had dropped to less than 3 out of 100.

Proposals were made in the last Congress to set national housing goals. Such proposals will undoubtedly be made again, the Chamber believes. But government setting of goals would inevitably lead to government manipulation of the construction industry to meet these goals.

Why this country should build 1 million, 2 million, or 1.5 million houses a year is unclear. It seems that home buyers and users should make this decision, not national planners and target setters. If the public wants more houses built each year there is no problem.

President's Page

CHINKS IN OUR ARMOR OF MATURITY

IN recent years all of us have heard statements as to how in the past quarter-century the mortgage industry has undergone a complete transformation, how no other area of credit has been so modernized as our own, how mortgage lending during this period has reached a full maturity and attained a new stature, and how the ease of mortgage financing has been so largely responsible for increasing home ownership to the highest level any nation has ever known. We've not only been hearing these statements—many of us have been making them, and I think every one of them is true. But I sometimes wonder if some of them are as *completely* true as we think they are, or we make ourselves believe they are. I have an idea that *over-all*—that is, taking a broad all-inclusive view—we can measure our progress and development in just these exact terms; but when we get down to some of the essentials—and some of the most *basic* essentials—I suspect there is room for improvement. To illustrate, certainly a most basic function in our field is the ability and desire to prepare the best type of loan submission, yet I am told by many principals that they are something less than that. Some originators, I suspect, too often treat them in a somewhat routine manner, forgetting that it is the submission that sells the loan. MBA, in its School, clinics, conferences and other events over the years, has given the matter careful attention and I am sure every competent mortgage man knows what is required in a good loan submission; but I have the feeling that some aren't devoting that degree of time and attention to their submissions which our principals have a right to expect. One bit of evidence to support this was noticed at this year's Convention when we held the "Idea Fair," an important part of which was to be a good, representative display of loan submissions. Those we had were good; but we would have liked many more, had they been easy to find.

Robert Tharpe

I think the same thing could be said about appraisals. These, too, I have reason to believe, are often turning up incomplete with many very elementary mistakes—so much so that the competence and sincerity of the appraiser might even be questioned. I can't say how widespread this might be but I am sure it is general enough to warrant a word of caution. These are basic, elementary matters but nevertheless most important contributors to this image of a modern, fully matured industry we like to think we have achieved. Many investors are complaining and have a right to do so.

I could cite other observations about what seem to me to be chinks in this armor of maturity. For instance, I think many of us are often prone to resist new developments to some extent in deference to continue doing what we have been doing. I mean such things as support for CAP, the seeming indifference of some to the new things coming along, such as sales of FHA's to individuals, the possibilities offered in the real estate trust, the unconcern of some to the challenges which definitely confront us in the field of urban renewal. And still another shocking fact is that some—undoubtedly only a very few—are overlooking the dual contracts and are accepting and using credit reports of an unreliable nature. It's happened; and while I know it is not common, it certainly adds nothing to the image of a matured and responsible industry.

I mention these things merely to highlight the point that if mortgage banking has reached the maturity and stature we say it has—and we know that it has—we must keep on proving it every day. We must continually strive for the highest standards in our dealings. We can't afford slips; our service to each other and to the public we serve must be the best and our standards of business conduct must be beyond question. It won't hurt to remind ourselves of these basic principles as we turn the leaf to a New Year.

Merry Christmas!

Robt. Tharpe

PRESIDENT

Federal Chartering of Mutual Savings Banks

DURING the past three years a great deal has been happening to the savings banking industry in its efforts to promote thrift and contribute to the long-term investment needs of the American economy. One effort that has been of particular significance has been programs to extend the system of savings banking beyond its present geographical limits. New York State has broken through branch limitations and may now reach new savers in new areas and thus provide facilities for thrift that are modern and convenient. On the national level, the savings banking industry is also attempting to bring to individuals and families throughout the United States the same facilities for thrift that are now available only to those living in 17 states.

One positive result was the enactment last spring of legislation permitting the establishment of mutual savings banks in Alaska. The legislation doubled at one stroke the geographic area that can be served by the mutual savings banking system. The National Association is giving assistance to individuals in Alaska who seek to organize a savings bank.

A second positive result was the introduction in July in the Congress, under the bi-partisan sponsorship of members of both House and Senate committees on banking and currency, of a bill calling for Federal chartering of mutual savings banks.

The legislation proposes to provide on a national level the facilities for personal savings and long-term investments now provided by mutual savings banks in 17 states. The structure, organization, and objectives of the proposed Federally-chartered institutions would adhere closely to those that for nearly 150 years have served well both individuals and the economy under the present state-chartered system of savings banks. The banks would be organized by community-minded individuals who would contribute to a guaranty fund sufficient to protect deposits until the bank could accumulate its own reserves. There would, of course, be no stockholders, the banks being operated solely for the benefit of depositors. The present creditor-debtor relationship of state-chartered mutual savings banks would continue with Federally-chartered banks. A board of trustees would manage the bank for the benefit of depositors. The investment functions, while concentrating on home financing, would be sufficiently flexible to maintain standards of liquidity which are traditionally associated with mutual savings banks. Finally, all earnings, after provisions for reserves to protect savings and the payment of operating expenses, would be distributed to depositors.

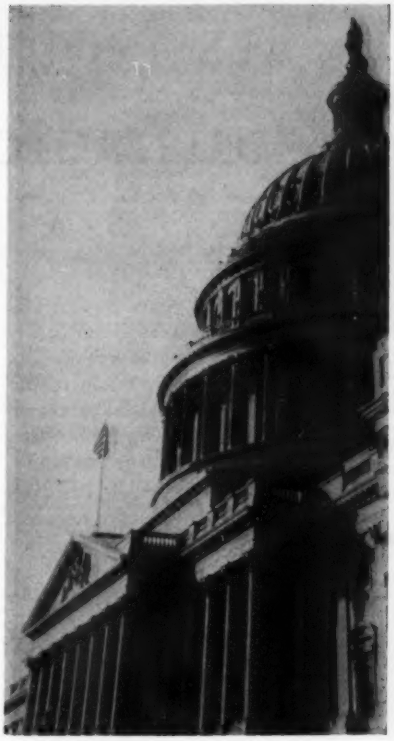
Thus, the same standards of safety, availability, and reasonable returns to depositors that characterize state-chartered savings banks would prevail. In other words, the new legislation carries forward the time-honored and time-tested standards and traditions of public service that have made mutual savings banks recognized leaders in the promotion of thrift and the channeling of investment funds into productive economic expansion.

There has been a revolution in the United States in recent years—and it is one from which an increasing number of individuals and families has directly benefited. Personal incomes in the United States have been on the rise. Stated in terms of real purchasing power, or in constant prices, the average family income has risen from less than $4,000 in 1929, the peak of the booming 1920's, to well over $6,000 in 1960. In 1929, only one-fourth of all consumer units had a purchasing power of more than $4,000; today nearly two-thirds are in this bracket. The number of families above the $4,000 mark, that is, in the $4,000 to $10,000 range, has risen from 8 million in 1929 to more than 28 million.

This rise in personal income is directly related to the increasing productivity of the American economy—a productivity made possible by the formation of capital for economic expansion. The capital for this expansion has come from the savings of the people. Personal savings will continue to be essential to the formation of capital if we are to continue to expand on a sound basis.

Of particular significance to the question of Federal chartering of mutual savings banks is the fact that areas where personal income, population, and housing and other capital needs are increasing at rates higher than the national average are just those areas in which there are no mutual savings banks. Even though these areas have no savings banks, their development has been aided through the out-of-state lending programs of savings banks that now exceed $5 billion. It is because mutual savings banking has contributed to the steady expansion of the American economy and to the capital needs of these faster growing areas that it seeks to make its thrift facilities directly available to all areas of the nation rather than to only one-third.

Many of the areas without savings banks are those with rising personal incomes, increasing demands for housing, for schools, for factories, for highways, for expanded transportation. They have tremendous resources. But in these areas we question whether



The year now closing set one record that has not been approached in a long time and may not be again—it saw more new ideas, plans and concepts affecting mortgage lending proposed, more new legislative and agency developments, in brief, more new things that would change the pattern of the future one way or the other than we have ever witnessed before. One of these was the proposal for federal chartering of a national mutual savings banks system; and since mutual savings banks and mortgage banking operate very closely, what affects them affects us. Here is what the mutual savings banks have proposed and the reasons why they think this new banking system would be a good thing for everyone concerned.

By GROVER W. ENSLEY
Executive Vice President, National Association of Mutual Savings Banks

existing institutions are capable and willing to promote thrift year in and year out, in good times and in poor times, when money is tight and when it is easy, when interest rates are high and when they are low.

Statistics indicate that financial institutions in the 33 non-mutual savings bank states are not meeting the need to stimulate an increased flow of personal savings. States in which only commercial banks and savings and loan associations exist generally have lower per capita savings. Of the 10 leading states in terms of savings accounts as a percent of personal income, nine have savings banks as well as commercial banks and savings and loans. Further, all of the 17 mutual savings bank states, with the exception of one, are among the 24 states with the highest percentage of savings accounts in relation to personal income. The total volume of savings accounts in the savings bank states amounts to nearly three-fifths of the United States total. This suggests that the potential for savings in the areas with rising personal income has not been fully tapped by existing institutions.

Surely the benefits that have resulted from vigorous thrift, promotion and competition for savings in the 17 mutual savings bank states should be made available in all other areas of the nation.

The fact that new savings banks would compete with existing institutions should not be a deterrent to Federal chartering. Competition has nourished and advanced our economic life. It is part of our basic economic tradition of opening new areas for expansion rather than restricting markets, of maximizing freedom of choice, of constantly refreshing the basic forces of supply and demand. New savings banks would provide families in the expanding areas of the United States with the same choice of institutions in which to place their savings as now are offered families in one-third of the nation. Of course, these new savings banks would compete with existing institutions even as there is competition among many types of institutions in the 17 mutual savings banking states. But this competition has been good for the institutions and equally good for the saver. The same benefits from competition can be expected to result with Federal chartering of mutual banks, particularly so since the proposed legislation specifically provides that a Federal mutual savings bank can be established only if "its operation will not unduly injure existing thrift institutions."

In considering the possibility of generating an increased flow of savings by establishing new savings banks, there are two other factors that should be mentioned.

First, commercial banking has only in relatively recent times found it profitable to operate savings account departments. And not all commercial banks do so. In fact, 1,400 have no savings accounts at all and another 1,000 offer no interest to savings depositors. Further, those that in recent years have considered it desirable from the standpoint of their stockholders to emphasize savings may, today or in the future as conditions in the money market fluctuate, wish to de-emphasize savings. An increasing number of studies by university economists conclude that promoting thrift is unprofitable—even in today's money markets. Mutual savings banks, on the other hand, are specialists in thrift and have as their first objective, the pro-

(Continued on page 39, Column 1)

It's Not the Job of U.S. to Guarantee a Rising Economy

It cannot insure that there will always be prosperity without dips and slides and if it tries to do so, real inflation is what we can expect. His views, set forth at the New York State Savings Banks Convention, reflect an area of opinion which assumes added interest these days when so many seem to think that prosperity insurance will become a firm plank in our national policy.

By SEN. A. WILLIS ROBERTSON of Virginia

THE institutions you represent administer almost $24 billion in assets for about 11½ million depositors and your banks hold over half of the personal savings held by the people of New York in banks, savings and loan associations and insurance companies.

Those who are concerned about the long-range dangers of inflation cannot over-emphasize the importance of financing our national economic growth through savings rather than by expansion of the money supply through artificial means. Your institutions perform a very important function in this regard.

With respect to your large investments—over $5 billion—in mortgages originating in other States, I regard your policies of investing your excess funds out-of-state as entirely correct. You have made a significant contribution to the stability of the mortgage market, particularly in VA mortgages, and the increase in your earnings which this policy has permitted has materially benefited your depositors.

I do not care to attach a label to our current economic situation. It has been characterized by some as a recession, by others as a leveling off, as a period of uncertainty, as a period of stability, a high level plateau, and so on.

The Secretary of the Treasury has stated that we have already undergone economic adjustments which will provide the base for a long period of sustainable, non-inflationary growth.

I have often thought that our national predilection for slogans and for the quick label for times, people, places and events is a liability, which dulls our sense of perception and tends to lead us into actions based more upon slogans and labels than upon the facts as they actually exist.

It was decided, for example, even before we entered upon this decade of the 1960's, that it was bound to be the "Soaring Sixties."

A portion of our disappointment, so far, is based, not so much upon current conditions or predictable events, which by any other standard are not bad, but upon the fact that we have so far failed to "soar."

It is very important, in my opinion, that we should not decide our future course upon any such false standards.

It is obvious that the boom which was predicted last year for this Fall has failed to materialize.

Purchases by business, government, and consumers increased in the third quarter of this year, but by a much smaller amount than in the preceding two quarters.

The decline in business inventory investment, however, was greater than the rise in final purchases, and gross national product declined slightly from a record rate of $505 billion in the second quarter to $503 billion in the third quarter. Consumer demands for goods and houses slackened, and the expansion in business fixed capital outlays tapered off.

Industrial production declined in September. Small declines were fairly widespread in both durable and non-durable goods sectors leading to a further reduction in the length of the work week.

Total employment in non-agricultural establishments decreased by about 150,000 between July and September, although the September level was still 850,000 higher than a year earlier.

Unemployment increased to 5.7 per cent of the labor force in September. Although total personal income in September was maintained at record levels, wage and salary income decreased slightly.

Retail sales declined in the third quarter of the year although there is some evidence that they may have increased in October.

The course of industrial production in October is not yet clear. Steel production rose somewhat, but dropped back again in the first week of November, when it was scheduled at 51.7 per cent of capacity.

Auto output was maintained at high levels.

Total construction activity was maintained at high levels through October as rising private non-residential building and government construction offset the decline in private residential building.

Private housing starts showed an unusually large drop in September, and for the third quarter as a whole they averaged 10 per cent below the first half.

One of the encouraging economic signs has been the rapid expansion of our exports since the middle of 1959, in response to strong demands from abroad.

Exports rose from a low of about $15.5 billion early last year to a seasonally adjusted annual rate of $20 billion last summer.

Imports, on the other hand, declined to an annual rate of about $15 billion last summer, somewhat lower than in the latter part of 1959. Our export surplus, therefore, reached the annual rate of $5 billion — greater than at any time since the days of the Marshall Plan, except during the Suez crisis of 1956-57.

However, in spite of our trade surplus, there was no corresponding reduction in our overall balance of payments deficit, because of the outflow of dollars for military expenses, private investment, government loans and grants, and other expenditures abroad.

Net gold and dollar transfers were running at an annual rate of nearly $3 billion in the summer, and more recent figures indicate that for the third quarter the deficit may have risen to an annual rate of about $4 billion.

I think it is easy to over-emphasize our concern over the gold outflow, and I do not wish anything I might say to be interpreted as indicating alarm.

The Federal Reserve has stated that "the gold stock of the United States is big enough to absorb the impact of large swings in current and capital transactions, so long as underlying forces continue to work in the direction of an adjustment. These forces include rising international liquidity, continuing reductions of foreign barriers to U. S. goods, continuing efforts of U. S. businessmen to improve the competitive position of their products in domestic and foreign markets, and continuing avoidance of inflation in the United States."

Our favorable trade balance, as opposed to our unfavorable payments balance, demonstrates again the viability and strength of our productive machine and its basic ability to compete in the world's markets—in design and price.

Nevertheless, as Dr. Per Jacobsson, Director of the International Monetary Fund, has said: "Any country which today permits the price level to go on rising will be exposed to balance of payments difficulties, and also before long, as its competitive power declines, to a deterioration in its employment situation."

Our international position is quite properly a strong factor in favor of fiscal restraint.

The discipline of our balance of payments is a reminder that, internationally as well as internally, we must meet competition in the market place. If we believe in our system—in the efficiency and strength of free enterprise, we should meet this challenge confidently.

I have recited these background facts in some detail because I think that in substance they still present a rather mixed and uncertain picture. When one looks at these developments and the reaction of the money and credit markets to them, it is obvious that most economic experts judge them to be signs of a recession, the extent and duration of which cannot be determined.

The monetary policies of the Federal Reserve have resulted in providing banks with more reserves than needed to meet the economy's seasonal bank credit and currency requirements for several months.

Earlier this year the Budget Bureau predicted a surplus of over $4 billion for the current fiscal year. The estimate has now been reduced, and it seems quite clear that, because of a sharp drop in anticipated income, primarily due to lower tax collections from corporations, the budget will be narrowly balanced with a surplus of about $1 billion at best.

Under all these conditions, I believe it is much too early yet to demand active Federal participation to promote business expansion, particularly to make plans for incurring budget deficits, by greatly increased expenditures or by tax reductions.

The recession, if it is one, has not progressed to a degree requiring such a course of action.

During the last recession, an excessive response by the Federal Government led to a budget deficit of $12.4 billion in the fiscal year 1959 which, in turn, led to later inflationary developments. For the present at least, unless business conditions decline considerably more, I believe we should plan and work for restraint upon Federal expenditures and maintain present tax rates.

In the Presidential campaign I was encouraged that both candidates expressed their support of a balanced budget, except in times of serious recession, a flexible monetary policy, and the independence of the Federal Reserve System. Of course, there are differences in degree, and disagreements as to the timing and conditions under which these policies might be implemented. Nevertheless, there is general agreement upon the basic principles which are so important to our economic growth and stability.

Both candidates also agreed upon the importance of improving our balance of payments position, and in their opposition to devaluation of the dollar as a means of halting the gold outflow.

The Federal Government cannot, in my opinion, undertake the job of guaranteeing a continuous and unremitting climb in the economy.

At least until the science of economics becomes much more reliable, we must accept the fact that there must be occasional declines in our rate of national growth.

If the Federal Government becomes a guarantor of perpetual and ever-increasing prosperity, without dips, slides or plateaus, inflation must be the inevitable result.

MBA Committees at Work

A new MBA year gains momentum . . . and, again, THE MORTGAGE BANKER *brings you this round-up report on the many and diversified programs and projects undertaken by your Association's committees. Those not appearing in this initial presentation will be covered next month; and, as various Committee projects develop more fully, they will be brought to the attention of the membership.*—By ROBERT J. BERAN

CONFERENCE COMMITTEE: Working closely with the MBA Headquarters Office, it is the prime function of this committee to develop and execute all Conference programs for the Association. As such, it is its responsibility to determine the number of Conferences to be held in any one fiscal year and the locations of the prospective meetings; it then presents its recommendations to the MBA Executive Committee for discussion and approval.

Three Conferences are scheduled for next year—the Midwestern Conference in Chicago, February 20-21; the Southern Conference in Atlanta, April 10-11; and the Eastern Conference, May 18-19, in Montreal, Canada.

This schedule represents a departure from the standard format of previous years. For one thing, the number of Conferences has been reduced from four to three—a reflection of the feeling, generally, among many members that perhaps MBA's meeting schedule was becoming too full. Also, the selection of Montreal as the site for the Eastern meeting is a change from its traditional New York City location; and, this year at least, it will be a Thursday-Friday (instead of the usual Monday-Tuesday) meeting.

Likewise, certain innovations are to be introduced into the programming for these meetings—and all Conference programs in the year ahead are to be developed along similar lines. Each day's program will open with workshop sessions on topics of relevance to the industry. These sessions will start early, perhaps as early as 8:15 or 8:30 a.m.; and they will be followed by a general session lasting approximately an hour, which time will be divided between no more than two speakers. Afternoons are to be left entirely free.

Specific details of each Conference, including the topics for the workshop sessions, etc. will, of course, be worked out by the Committee vice chairman responsible for each particular meeting. These are: for Chicago—Maurice A. Pollak and Newton S. Noble; for Atlanta—Jack M. Martin and Jere M. Mills; for Montreal—George L. Campbell and Sidney A. Shepherd. Among the ideas already under consideration (for the Eastern Conference, for example) is for both the U. S. FHA Commissioner and the Canadian NHA Commissioner to appear together on the one program, and for each to discuss the pros and cons of his respective housing insurance programs.

With plans for its 1961 program of meetings comfortably underway, the Committee reports that it has initiated a practice of projecting meeting locations and dates well in advance. Accordingly, all meetings for 1962—and some even for 1963—have been finalized. In 1962, in lieu of a Southern meeting, a Western Mortgage Conference will be held in Seattle—in July, at which time a World's Fair will be in progress in that city. And, that year, although the Eastern Conference will again revert to New York City, it will be held at the Waldorf-Astoria instead of the Commodore Hotel. For 1963, the Southern Mortgage Conference is slated to be held in New Orleans.

Chairman of the 1960-61 Conference Committee is C. C. Cameron of Raleigh, North Carolina. A native Mississippian, he is president of the Cameron-Brown Company in Raleigh and also president of the Cameron-Brown Realty Company and the Cameron-Brown Insurance Agency. A regional vice president of MBA, he served last year as chairman of the GI Committee. He has appeared as a program speaker at various MBA Conference and Clinic meetings and is active, too, in the affairs of other allied industry, builder and real estate groups.

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MORTGAGE MARKET COMMITTEE: With pension funds, *at last,* accessible to the mortgage banker and with a major "breakthrough" in view, the activities of this all-important committee continue to assume increasing stature in the affairs of this Association. It was the Mortgage Market Committee, MBA members will recall, which last year sponsored the development and preparation of the highly successful New York University research study: *The Investment Status of FHA and VA Mortgages.* And it was this committee, also, which played a vital role in the planning and setting-up of the MBA-sponsored Mortgage Seminar for Trusteed Funds held in New York City last September.

In the year to come, the Committee will have under its sponsorship a series of Regional Seminars for Pension Funds, patterned after the New York meeting. On this project it will work in conjunction with the Mortgage Servicing and Educational Committees. Together, too, these committees will pool their talents in the development of ways and methods to increase the lists of pension funds, pension fund managers, commercial bank trust officers, etc. which MBA is in the process of compiling. These lists—ultimately to be made available to the full Association membership—are to be used in the inviting of pension fund people to attend the specially planned Regional Seminars.

Among the other projects to which the Committee will direct its efforts in the year ahead will be:

1. A study of the practicability of banks putting mortgages in Common Trust Funds.
2. Encouragement of a definite program whereby mortgage bankers, through personal contact, will solicit pension funds and unions in their own localities.
3. Arranging for top-flight mortgage bankers to participate as program speakers at the American Bankers Association Trust Conference, and the arranging of similar appearances before some of the state associations of ABA.

H. Bruce Thompson of Upper Darby, Pennsylvania, is this year's chairman of the Mortgage Market Committee. A native Pennsylvanian, he is chairman of the finance committee, Colonial Mortgage Service Company, in Upper Darby, a firm which he organized in suburban Philadelphia in 1942. He has long been active in MBA and in the Philadelphia MBA, and is a past president of that local group. He is active, too, in his local area Real Estate Boards and in the National Association of Real Estate Boards. Last year, he was a vice chairman of the GI Committee.

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▶ EDUCATIONAL COMMITTEE: As in the past—and because, this year, the schedule of schools, conferences, seminars, etc. is even heavier than ever—this is one committee which, it might be said, has its work cut out for it.

First on its schedule (and the concluding event in MBA's 1960 series of meetings) was the Case-Study Seminar on Income Property Financing, held on December 4-10, in East Lansing, Michigan. It represents a joint presentation by MBA and the College of Business and Public Service, Michigan State University. Entirely new in concept and presentation, as far as this Association is concerned, the meeting—as its name implies—was a week of intensive study and analysis of every phase of income property financing. The principal ingredient was the case study method of achieving a thorough and complete understanding of income property financing.

James B. Biddle of Dallas, Texas, was the Committee vice chairman in charge of the special sub-committee for this Seminar.

In January the Committee will be presenting its two annual Senior Executives Conferences—the one at New York University will be held January 17-19, with Harley H. Kight of New York City as Committee vice chairman in charge; and the Southern Methodist University meeting will follow on January 22-24, with Paul Crum of Dallas as Committee vice chairman in charge.

And already well under way, no matter how early it might seem, are plans for the MBA 1961 Schools of Mortgage Banking—with Courses I, II and III to be held as always at Northwestern University, in June; and Courses I and II to be presented at Stanford University, in July and August. In conjunction with these MBA Schools, the Committee is currently considering the possibilities of inaugurating an additional Senior Mortgage Seminar. This Seminar would be held at Northwestern University, during the same week as Course III of the School. It would run for two or three days and members of the School faculty would address this senior group. A special sub-committee has been appointed to study this proposal.

Also, in the year ahead, this Committee will direct its attention to:

1. Planning for and sponsoring "Mortgage Bankers Days" at different universities around the country. These one-day programs, featuring a full schedule of lectures, film showings, etc., enable students to hear the story of mortgage banking and to learn of the opportunities in the field. Inaugurated at Southern Methodist University, the idea of such a day-long student orientation is beginning to take hold elsewhere in the country and similar "Days" have been held at the University of Texas, the University of Miami and the American University in Washington, D. C.
2. Working with the Mortgage Market Committee and the Mortgage Servicing Committee in the planning and setting up of Regional Seminars for Pension Funds—to be patterned after the recent New York Seminar.
3. Developing additional offerings for the new MBA Correspondence Course series, the first of which—"Processing the Loan"—has just recently been made available. Developed in response to the industry's long-term need for increased emphasis on the training of those employees who work at the "fundamental" staff level, each of the Courses—as now planned—will deal with a single phase of mortgage lending and servicing procedure. Materials to be studied will be comprehensive in nature and will in no way conflict with or duplicate the curriculum offered through the MBA Schools of Mortgage Banking.

Chairman of the MBA Educational Committee for 1960-61 is Louis P. Wolfort of New Orleans. President of the First National Mortgage Corporation in that city, he has long been active in the affairs of MBA—both at the national and the local level. He is a past president of the Louisiana MBA. Nationally, he served last year and continues to serve again this year on the Conference Committee. In addition to this year's responsibility as Committee chairman, he continues—as he has from the program's inception—to act as the liaison representative for Tulane University, under MBA's College and University Liaison program.

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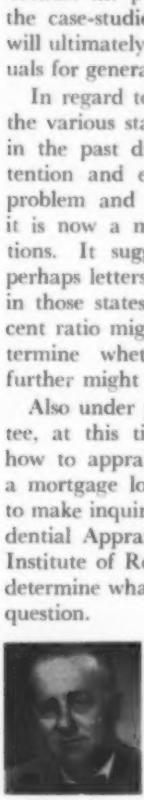
▶ CONVENTIONAL LOAN COMMITTEE: Greater standardization of forms and procedures used in investor-correspondent relationships—such has been and continues to be a major objective of this committee. Having already provided the industry with a series of standardized processing forms —*Residential Appraisal Report for Conventional Loan, Mortgage Loan Submission Form, Application for Residential Loan* and *Personal Financial Statement* — the Committee intends, in the year ahead, to pursue a vigorous policy of encouraging the acceptance and wider use of these MBA forms among the Association's life company members, mutual sav-

ings banks and other investors. One approach will be to publicize the many investors who now are accepting these forms in loan submissions.

Under discussion, currently, is the possible preparation of a manual on conventional loan submission techniques, with the work on the various sections to be done by experts in each of the fields represented. The Committee very much favors proceeding with this project; however, no direct action is being contemplated at this time due to the Case-Study Seminar on Income Property Financing, and because the possibility does exist that the case-studies used in the Seminar will ultimately be assembled into manuals for general use.

In regard to loan-to-value ratios in the various states, the Committee has in the past directed considerable attention and effort to correcting the problem and is of the opinion that it is now a matter for local associations. It suggests, accordingly, that perhaps letters to all local associations in those states not having the 75 per cent ratio might help—at least to determine whether or not anything further might be done.

Also under perusal by the Committee, at this time, is the problem of how to appraise swimming pools for a mortgage loan. The Committee is to make inquiry of the Society of Residential Appraisers and the American Institute of Real Estate Appraisers to determine what they are doing on this question.



Frank R. Shugrue of Lincoln, Nebraska, is chairman of the 1960-61 Conventional Loan Committee. He is vice president, in charge of mortgage loans and real estate, for the Bankers Life Insurance Company of Nebraska. A member of the MBA Board of Governors, as a regional vice president, he is serving, too, as a member of the Educational Committee's college and university liaison group—for the University of Nebraska. Active in the affairs of the American Institute of Real Estate Appraisers, he serves on that body's Governing Council and on various of its committees.

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▶ URBAN RENEWAL COMMITTEE: Recognizing that American cities have not reached anywhere near their full potential in creating and promoting urban renewal work and cognizant of the need for activating the interest of muncipalities in major urban renewal work and, too, the need for further public awareness of the benefits of urban renewal, the MBA Public Relations Committee—in setting up its working schedule for the year ahead—has proposed for itself a broad and ambitious program.

One of its initial efforts, and what well might develop into one of the most effectively operating approaches yet introduced—at a trade association level—to combat the problems of urban renewal, will be to arrange for a meeting with the urban renewal chairmen of other such national associations as the American Bankers Association, the National Association of Home Builders, the National Association of Real Estate Boards, the American Institute of Architects and all other similarly interested groups, each of which has a vital stake in the issues. Coming together in this way, these men can pool their ideas and their resources and can, it is most likely, develop an entirely new "blueprint" of ways and means for securing a broad promotional program and understanding of the entire urban renewal problem — leading, eventually, to a series of public relations programs on a national basis.

It is the thinking of the MBA Committee that a permanent committee be set up—a common committee, on which each of these various trade associations will be represented, to coordinate and expand their urban renewal work.

The Committee this year, also, is undertaking the preparation of a brochure containing detailed analyses and breakdowns of at least four or five successful urban renewal projects. This would be presented on a case-study basis which would show the mortgage banker that urban renewal financing and project promotion is a sound, practical and profitable part of his business. A sum of $2,500 has been approved by the MBA Board of Governors for the work of the Urban Renewal Committee in preparing and distributing this brochure.

Among other undertakings of the Committee will be:

1. Completion of a "box score" run-down on urban renewal projects around the country, showing the progress of each of them. This will appear in a forthcoming issue of THE MORTGAGE BANKER.
2. Continuance of the "Blueprint of a Lendable Area" activity of last year's Committee, and its dissemination to trade associations, municipalities, etc.
3. Endorsement of recommended legislative changes pending in the state of New York which would allow insurance companies to make participations in mortgage investments. The Committee, itself, intends to do no work on this particular point, but its endorsement will be valuable.

Chairman of the 1960-61 Urban Renewal Committee is Robert H. Pease of Chicago. He is a vice president of Draper and Kramer, Inc. and is a member of that firm's board of directors. He is a long-time member of the Association, and has, at one time or another, been chairman of a great many MBA committees. He has been a supporter of and lecturer at the MBA Schools since their inception and he continues active, in many capacities, in the educational programs of this Association. In 1954 he was awarded the MBA Distinguished Service Award for his work as co-editor of the textbook: Mortgage Banking.

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▶ MORTGAGE SERVICING COMMITTEE: One of the most diversified of all MBA committees, the Mortgage Servicing Committee's range of activities is a reliable indicator of the ever-increasing emphasis being given to this phase of the mortgage industry. The planning and sponsoring of Servicing Clinics and related meetings, of course, continues to be one of its major responsibilities; but it is importantly associated, as well, with a score of diversified projects in many other areas of Association effort.

It played a major role in last September's Mortgage Seminar for Trus-

teed Funds, particularly in the preparation of the instructional manual, "The Mortgage Loan Story." The manual was used at the Seminar and, by emphasizing the simplicity which characterizes today's mortgage acquisition and portfolio development, was intended to acquaint pension fund trustees with how simple and how profitable it can be to make mortgage investments. Currently, it is being revised to incorporate changes and ideas introduced at the Seminar; and when completed it will be made available to the membership. In addition to being responsible for the revising of this manual, the Committee will also be cooperating with the Mortgage Market Committee and the Educational Committee in the organizing of Regional Pension Fund Seminars.

The Committee is busy, too, developing a series of five Mortgage Servicing Manuals which, when completed, will provide servicing managers with up-to-date technical information on all basic servicing procedures and which, because they will be of the loose-leaf variety, will permit changes and additions to be included as new information is available and as new techniques and procedures become perfected. These manuals, also, will provide the instructional texts for five of the ten correspondence courses in the new series recently introduced by the Educational Committee.

Many months of effort already have been devoted to this project; but because of its complexity, and although each of the five is in a varying stage of completion, the manuals are not yet ready to be published. The five are:

"Delinquent Mortgage Loan Collection Procedures"—Donald A. Luff, sub-committee chairman; "Cashiering and Deposit Procedures"—M. J. Greene, sub-committee chairman; "Accounting—Reporting and Remittance Procedures"—Charles L. Foley, sub-committee chairman; "Escrow Department Procedure"—Stanley LeBon, sub-committee chairman; "FHA and VA Foreclosure and Claim Procedures" — Thomas J. Melody, sub-committee chairman.

As for the Servicing Clinics—the first regular Clinic is set for April 20-21, at the Olympic Hotel in Seattle, with James T. Hillman as chairman for the meeting. The program will follow the format established for these Clinics. Later in the year, however, there will be something very special in the way of servicing meetings —an Electronic Convention, at the Statler Hotel in Detroit, September 11-14. IBM, Remington Rand, National Cash and Burroughs will participate in the presentation of the program and many other machine companies will be exhibitors at the Convention. The program will be aimed at all segments of the industry and sessions of special interest to commercial banks, insurance companies, savings and loan associations and savings banks, as well as mortgage bankers, are planned.

The Committee, likewise, will work with the MBA Conference Committee in the presentation of loan administration, office management and general management workshops at the three Mortgage Conferences to be held in Chicago, Montreal and Atlanta. Teams of Servicing Committee members will be utilized by the Conference Committee in presenting roundtable seminars at these Conferences. A. F. Potenziani of Albuquerque, New Mexico, is the Committee vice chairman in charge of the sub-committee responsible for this phase of Committee activity.

Two other sub-committees have been appointed and are at work. One, under the chairmanship of O. C. Nugent, Jr., of Nashville, is studying the frequency of single debit reporting. Another is exploring the various ways and means of developing effective loan administration procedures for FHA loans sold to individuals. The Committee is in agreement that in order to service loans sold to individuals, simplified procedures will have to be developed.

Joseph L. Engleman of New York City is chairman of the 1960-61 Mortgage Servicing Committee. Formerly, the director of mortgage servicing for the Mutual Life Insurance Company of New York, he has just recently been promoted to the position of director of special projects. Well known in mortgage servicing circles within the industry, he has contributed consistently both behind the scenes and as an active program participant at Servicing Clinics around the country. He is considered by many as one of the most influential investor members of the Association, in putting forth new ideas for the elimination of paperwork and the streamlining of operational procedures.

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PUBLIC RELATIONS COMMITTEE: This is the committee which has given to MBA what many consider to be its biggest and most impressive promotional effort to date —the Association motion picture, "The Road to Better Living." As might be expected, the principal project of this Committee during the past year was the promotion and distribution of the film—and it will continue to be so in the year ahead.

Since the film's release and initial distribution in November of 1959, there have been approximately 2,000 showings, reaching into every state including Hawaii and Alaska and before all types of organizations. The film has met with good critical response, from MBA members, from groups showing it and from organizations with a direct relationship to the mortgage industry. In addition to the work done by Association Films, Inc., the film's professional distributor, MBA has undertaken distribution on its own through a series of articles in THE MORTGAGE BANKER, specific solicitation letters, specially prepared color brochures, etc. A special solicitation was made, too, of local chapters of the National Association of Real Estate Boards, National Home Builders Association, American Institute of Real Estate Appraisers, the Society of Residential Appraisers, the Society of Industrial Realtors and the Institute of Real Estate Management. At least 175 such bookings have been arranged.

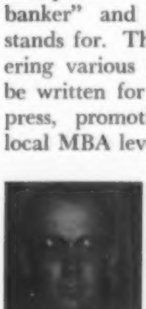
These solicitations are still underway and it is contemplated that the coming 12 months will show results equal to those of the past year. Among the "new" approaches to be pursued by the Committee will be efforts to sesure showings of the film in the home offices of MBA life company members.

Television showings of the film, during the past year, numbered well over a hundred. For showings in the year

to come, the film has been edited to include an introduction and commentary by Ilka Chase and will again be carried in the distributing firm's new film catalog for 1960-61.

One of the Committee's continuing projects, carried over from last year, is the solicitation of gift subscriptions to THE MORTGAGE BANKER. The appeal has been to get MBA members to buy subscriptions as gifts for builders, attorneys and others with whom they maintain business contacts. So far, almost 300 subscriptions have been solicited in this manner. For Christmas giving, a special Christmas gift certificate has been prepared and will be issued with each gift subscription. The Committee is giving thought, too, to the possibility — at some future date — of devoting one entire issue of THE MORTGAGE BANKER to articles and topics of specific interest to one specialized group (builders for example) and then using it as a "kick off" issue introducing a special campaign for soliciting subscriptions within this particular group.

The Committee is very much interested in—and intends to pursue the matter in the months to come—initiating some type of program or campaign which will familiarize the general public with the word "mortgage banker" and just exactly what he stands for. The Committee is considering various approaches—articles to be written for release in the national press, promotion at the state and local MBA level, etc.



Chairman of the 1960-61 Public Relations Committee is Bundy Colwell of Los Angeles. He is president of The Colwell Company in that city. A member of the Committee's special motion picture sub-committee, he was particularly active in the planning-stage of the project and served as one of the technical advisors during the filming. As one of the Committee's PR representatives for Los Angeles, he has been active for a number of years in promoting the activities and projects of the Committee among MBA members in the area. He serves, too, as the Educational Committee's university liaison representative with Pomona College in Claremont, California. He is a member of the MBA Board of Governors, as an associate governor at large for MBA Region 12.

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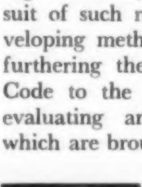
ETHICS AND STANDARDS OF PRACTICE COMMITTEE: Adopted by the MBA Board of Governors at the Association's annual convention last year in New York City, the MBA Canon of Ethics and Standards of Practice is the most complete such code ever adopted for members of MBA—and it's a somewhat rigid code also, one that demands the highest standards of good conduct and fair dealing. It is, in effect, the rule book by which all MBA members now "live" — for it represents each member's pledge to those he represents and to the public.

It is a sound and workable code, and it reflects a great amount of work and thought on the part of the Committee which drafted it. Of course, our industry has done well in adhering to these principles before they were incorporated into an official code of conduct; but now it can do even better. And this Committee, originated for the purpose of developing the Code, now continues in pursuit of such related objectives as developing methods for promoting and furthering the distribution of the Code to the membership and, also, evaluating and studying violations which are brought to its attention.



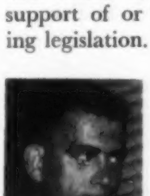
Dale M. Thompson is chairman of the Ethics and Standards of Practice Committee for 1960-61. He is president of the City Bond & Mortgage Company in Kansas City, and chairman of the Western City Mortgage Company, San Francisco. He is a former vice president of the City National Bank and Trust Company of Kansas City. He has lectured at the MBA Schools of Mortgage Banking at both Northwestern and Stanford Universities over the past decade. A member of the Association's board of governors since 1956, he has served on its executive committee and acted as chairman of the Mortgage Market Committee and the Conventional Loan Committee. He is, this year, the Association's newly elected second vice president.

YOUNG MEN'S ACTIVITIES COMMITTEE: It is a fundamental purpose of this Committee to establish closer relationships between the younger men within the membership and those who are assuming an active role in the work of the Association. To accomplish this, the Committee—over the years—has developed a series of regular activities which, by their very nature and by the high level of achievement set—and attained, continue to reap high praise from *all* MBA members.

Chief among these, of course, is the YMAC-sponsored breakfast or luncheon meetings held during Association conferences and at the annual Convention. Three such breakfast meetings were held during the past year at three MBA Conferences, and at the Convention in October a luncheon meeting and program was provided. It proved a tremendously successful Convention event, drawing a capacity attendance of over 300 persons.

These programs will be continued in the year ahead. Committee vice chairman D. Richard Mead, Jr. of Miami Beach will be chairman of this particular YMAC function.

Committee members will continue, too, to provide articles for the special YMAC page appearing monthly in THE MORTGAGE BANKER. B. D. Hudgens of Granite City, Illinois, a Committee vice chairman, has been appointed "editor" of the YMAC page for the year ahead. Also, the YMAC legislative subcommittee, headed by Committee vice chairman Sefton Stallard of Elizabeth, New Jersey, will continue active—lending valuable support whenever MBA as an Association wishes to go on record either in support of or in opposition to pending legislation.



Chairman of the Young Men's Activities Committee for 1960-61 is John C. Hall, Jr. of Birmingham, Alabama. He is a vice president of Cobbs, Allen & Hall Mortgage Company, Inc. Young in years, but with considerable experience in the industry, he has been an active contributor to all phases of YMAC activity and last year served as a vice chairman of the Committee. He is serving, too, on the MBA Insurance Committee.

FEDERAL CHARTERING

(from page 31)

motion of thrift through good times and bad.

The second point to consider in judging the need for new thrift institutions is somewhat more difficult to pinpoint. There is sufficient data to suggest that over the past decades the ratio of personal savings to disposable income has remained relatively stable. This would seem to make futile any new effort to promote additional savings. We question this conclusion. In the first place, we cannot be certain of the ratio of personal savings to income until we provide all sections of the country with equal facilities for savings. Let us first provide equal facilities before resigning ourselves to present levels of savings.

Moreover, if savings are not promoted as vigorously throughout the country as spending and borrowing, how long can we expect the present ratio of savings to income to continue? Many of the new families being formed in the non-mutual savings bank states are experiencing steadily rising levels of personal income. Thus, they are particularly susceptible to pressures to buy and to borrow. We have no quarrel with those who develop new methods for selling and new forms of credit. New and novel pressures and motivations to spend, however, must be balanced by new and novel opportunities to serve, if the forces in our free, competitive markets are to function effectively.

Two more points should be made. One is in the area of home financing, the other in the broad area of building a financial system capable of supporting the strains that an expanding economy will place on it.

Mutual savings banks, after they have taken care of the needs of their own communities, have little difficulty in finding outlets for their supply of mortgage credit in the non-mutual savings bank states. In the past decade they have become the prime lenders in the federally underwritten mortgage market. Does this not indicate the present inadequacy of housing credit in those states where only commercial banks and savings and loans operate? I need only point to the higher cost of home financing in the non-mutual savings bank states to indicate that the demand for mortgage credit usually exceeds the supply. If mortgage credit were as available in the 33 non savings bank states as it is in the 17 savings bank states, we would see mortgage rates level out nationally and actually decline, with little difference in the cost of home financing among the different geographic regions.

In introducing the Federal charter bill, United States Senator John Sparkman referred to an article by Dr. Arthur Upgren, in which this noted economist called attention to the tremendous demands that would be made on our banking system in the decade ahead. Dr. Upgren declared, and Senator Sparkman agreed, that the long-term trend in our national economy is one of growth and expansion and that there is great need to sustain these trends by creating a banking system capable of supplying the money, the credit, and the services that will be imposed by such growth. Surely a national thrift system, founded on the principles of the present savings banking industry, would help to build a national financial structure that can better carry the burdens of a dynamic economy.

Federal chartering of mutual savings banks has great potentials in the fostering of higher levels of savings, increasing the total supply of mortgage funds, and improving the distribution of these funds throughout the nation.

Valuable as we consider the Federal charter bill, we cannot expect action over night. The chartering of Federal mutual savings banks is an extremely significant step in the evolution of the American banking system. We must not expect immediate action by the Congress. A bill of such importance requires careful analysis by the Federal executive agencies and the legislative branch. We also seek the advice, suggestions, and support of related financial institutions.

Before the Savings Bank Women of New York.

SIZE OF MARKET

(from page 10)

tend to be small. For example, the pension funds of the employees of automobile and steel companies are managed by the employers. In the carpenter's trade and the garment industry, however, the unions are the biggest units, and they manage the pension funds.

The great bulk of the $25 billion in corporate trusteed funds is under the investment control of commercial banks acting as trustees. A very few banks are trustees of the major share of the bank-trusteed funds. When you add to these funds a small number of self-administered funds of large companies, each with its own individual trustees, you have a field of far more limited scope than would appear on the surface.

The corporate non-insured pension funds grew by more than $3 billion last year alone, and this degree of growth is expected to continue. This growth comes about in two ways: First, through new contributions to existing funds, including increased contributions resulting from collective bargaining, and, second, from the establishment of new funds. Unlike the life insurance companies and thrift institutions, pension funds are not subject to shifts in the public's inclination to save. Their growth is relatively steady and predictable. . . .

Looking into the future, it appears safe to say that the pension funds will be an increasingly important source of funds for investment in mortgages. Their primary interest, in my opinion, will be in FHA and VA mortgages. There will also be a continuing interest in conventional mortgage loans on commercial and industrial single-tenant properties under absolute net leases to companies of national credit standing. Sale-lease-backs backed by the same type of tenancy will be particularly popular with pension fund trustees. For the most conservative investments in our field, the pension funds are now an active and useful source.

But don't expect the pension funds to do things that other investors won't do. If a life insurance company, with its fully staffed mortgage department including skilled appraisers, won't provide the financing you want, don't go to the pension funds. If you want higher than market prices for FHAs and VAs, don't expect to get them from the pension funds. If you aren't well-established as a servicer, you aren't likely to find the pension funds welcoming you. But if you are willing to offer the best you have and to work hard on it, the doors of the trustees, directly or indirectly, may open to you.

Other MBAs

Miller Kimbrough Is Tennessee MBA Head

Miller Kimbrough, president, Kimbrough-Phillips Co., Nashville, was elected president of the Tennessee MBA for the 1960-61 year. W. D. Galbreath, president, Percy Galbreath & Son, Inc., Memphis, was elected vice president, E. S. Metcalfe, vice president and assistant manager, Fidelity Bankers Trust Co., Knoxville, was elected vice president and William Dunstan, vice president, First Trust Company, Chattanooga, was named secretary-treasurer. Directors named were Stanyarne Burrows, Jr., vice president, The Volunteer State Life Insurance Co., Chattanooga; E. R. Richmond, president E. R. Richmond and Co., Memphis; Tyler B. Green, vice president, Commerce Union Bank, Nashville and Ernest P. Schumacher, president, Schumacher Mortgage Company, Inc., Memphis.

John Powers Heads Indianapolis MBA

John Powers, district manager of the mortgage loan department, Pacific Mutual Life Insurance Company, was elected president of the Indianapolis MBA succeeding David E. Hiatt. Donald Jameson, president, Equitable Securities Company, was elected vice president and Arnold Fleer, assistant manager of Mercantile Mortgage Company in Indianapolis, was elected secretary-treasurer. Paul J. Goben, head of the mortgage loan department of State Life Insurance Company, was elected a director for a three-year term. This was the first year the Indianapolis MBA has operated as a corporate body. During the past two years ten new firms have joined, bringing total membership to 33.


Powers

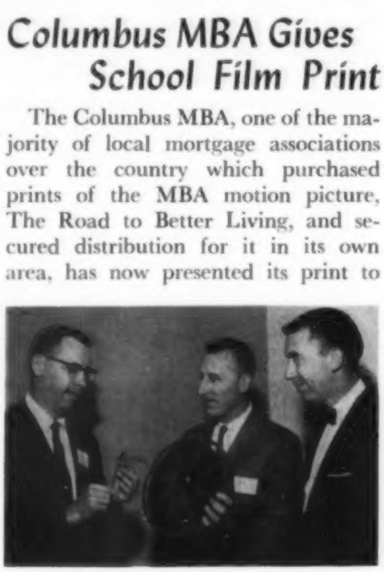

Jameson


Fleer

Committee chairmen for the coming year as announced by Mr. Powers are: *Legislative,* A. A. Savill, Savill-Mahaffey Mortgage Co., Inc.; *Program,* C. Worth Barnett, Mercantile Mortgage Co.; *Public Relations,* William M. Hall, Meridian Mortgage Co., Inc.; and *Membership,* Jack Thorne, Savill-Mahaffey Mortgage Co., Inc.

Columbus MBA Gives School Film Print

The Columbus MBA, one of the majority of local mortgage associations over the country which purchased prints of the MBA motion picture, The Road to Better Living, and secured distribution for it in its own area, has now presented its print to



the Columbus Board of Education. Presentation was made at a luncheon given by the Columbus MBA. Left to right: R. D. Williams, vice president, Galbreath Mortgage Co.; John Sittig, director of radio and audio visual education of the Board of Education; and Thomas K. Hartzler, Jr., president, Columbus MBA.

Binders, Closers Rejects, S-crows

Miami has a mortgage bowling league. Started in 1959 with six teams, the Mortgage Bankers League has blossomed into 10 teams for a new 35-week schedule of competition between teams with names drawn primarily from the mortgage banking lexicon.

"Binders" is the name selected by the American Title Insurance Company Team.

The Lon Worth Crow Company, with three teams, came up with the "Closers," the "S-Crows," and inevitably, the "Scarecrows."

Southeastern Mortgage entered the "Delinquents," and the "Rejects," and Land Title Company the "Defects."

The Stockton, Whatley, Davin & Co., entry chose "Discounts," and S. C. Bluh Company team became the "Spots."

"Squares" was selected by the Washington Security Company bowlers—apparently in honor of Washington Square.

The bowling presidents are Lon Worth Crow, Jr., and Land Title's Chieftain, Harrison Jones.

MBA Correspondence Course Is Started

The comprehensive educational program which for nearly fifteen years has been offered annually by MBA has been extended into an entirely new and different field with the inauguration of a correspondence course. Long in the planning stage, the correspondence program has materialized with the offering of the first course, Processing the Loan, and already more than 350 from member firms have registered for it.

The course is devised for non-management personnel of member organizations and is aimed at assisting in the training of all personnel at the various stage levels. Each course will be devoted to a single subject, with a series of home study assignments to be completed by the student within a specified period. On completion of each course, the student will be given a Certificate of Completion. The subject material in no way duplicates or supplements the offerings at the School of Mortgage Banking.

Addition of the correspondence courses to the Association's educational program would appear to be a natural development in the expansion of MBA's efforts to more properly train those who are assuming, and will assume, administrative and management responsibilities in the industry. The first MBA educational effort was a Seminar-type meeting at Purdue University and devoted entirely to farm lending problems. Soon after, the MBA-NYU Senior Executives Conference was set up, followed by the Mortgage Banking Seminar at Northwestern University, which later became the School of Mortgage Banking. The next steps were the Western section of the School at Stanford University and the addition of the SMU Senior Executives Conference. Both the Conferences and the School have entirely different objectives and seek to reach entirely different audiences; now with the correspondence course a still further group will be served through the MBA educational program.

The initial offering in the correspondence course, Processing the Loan, is the creation of Lewis O. Kerwood, MBA Director of Education and Research, who wrote the Manual and prepared other material which students will use. Other courses will follow.

Mortgage Banking Days Over the U. S.

The latest in a series of Mortgage Banking Days sponsored by MBA in cooperation with colleges and universities over the country was held in November at American University in Washington, D. C. The program was sponsored in cooperation with the Greater MBA of Washington, D. C.

Hector Hollister, executive vice president, Frederick W. Berens, Inc., served as moderator. Guest speakers and topics at the session included Francis C. Little, president, B. F. Saul Co., on "What Is Mortgage Banking?"; George W. DeFranceaux, president, Frederick W. Berens, Inc. on "What The Mortgage Banker Can Do For You"; Martin R. West, Jr., senior vice president, Weaver Bros., Inc. on "Opportunities in Mortgage Banking"; Lewis O. Kerwood, MBA director of education and research, on "Qualifications for a Mortgage Banking Career"; Robert N. Taylor, vice president, Peoples Life Insurance Co. on "The Mortgage Banker and the Institutional Investor"; Robert C. Boucher, M.A.I. on "Real Estate as an Investment"; and Frederick A. Marsteller, president, Marsteller, McCabe and Co., Inc. on "Guidance In Home Buying."

Previous such meetings have been held in Southern Methodist University, Dallas; University of Miami in Coral Gables, Florida and Upsala College, East Orange, New Jersey.

The programs are for one full day including an evening session where various MBA members and members of the faculty of the cooperating school speak on various phases of the mortgage industry. Individual student interviews are arranged and the effort is aimed at presenting the facts of mortgage banking as a career. The evening session is usually an open meeting where the public is invited to hear various talks about home buying, mortgage lending and a showing of the MBA motion picture.

People : Places : Events

W. A. McKinley, president, McKinley Mortgage Corporation, Dallas, announced that **B. Saunders Brooks** was elected vice president. Mr. Brooks was formerly with Pacific Mutual Life Insurance Company. His official capacity with McKinley is in the field of commercial and industrial financing. At a recent directors' meeting, **James A. Cheek** was elevated from vice president to executive vice president.

B. Saunders Brooks

At The Lowell Five Cent Savings Bank, Lowell, Mass., **Edward N. Lamson,** former treasurer, has been elected executive vice president and treasurer and **William B. Toohey,** formerly assistant treasurer, has been named mortgage officer and assistant treasurer.

Manufacturers Trust Company, New York, named **Michael J. Nicolais** as an assistant vice president in the mortgage loan and sales division of the bank's real estate and mortgage department. Mr. Nicolais has been in the real estate field since 1925. He came to the Bank when the Mortgage Corporation of New York merged with Manufacturers Trust in 1941.

Mercantile Mortgage Company, Granite City, Ill. appointed **C. H. McCormack** as treasurer, **W. C. Rainford,** president, said. McCormack comes from American National Bank in Portsmouth, Va., where he was executive vice president. He was also formerly manager of banking services, Southwest District, for Ernst & Ernst, accountants. He is the author of several articles on accounting and communications in financial institutions. He is a graduate of Drake University and of the School of Banking of the South at Louisiana State University.

John R. Folsom, formerly assistant vice president and manager of the mortgage loan department of Liberty National Life Insurance Co., has been named executive vice president of Home Federal Savings and Loan Association of Columbia, S. C.

Joel T. O'Hern, Jr. has been advanced from assistant vice president to vice president in charge of the Tidewater Virginia offices of Colonial Group, Inc., which includes those in Norfolk, Newport News, Portsmouth and Virginia Beach.

The Philadelphia Savings Fund Society announced promotions for three mortgage and real estate department officers. **Raymond R. Holland,** a mortgage officer, gets the responsibilities for new loan activities; **William S. Geasey,** a former assistant mortgage officer, becomes a mortgage officer; and **Samuel McNutt, Jr.,** is promoted from chief clerk to assistant mortgage officer.

Joe Engleman, director of mortgage services of The Mutual Life Insurance Company of New York, has been promoted to a director in the Operations Department of the Company. The mortgage accounting division of Mutual Life is one of the divisions within its jurisdiction.

Erwin A. Salk was elected president of Salk, Ward & Salk, Inc., Chicago, succeeding **Harry Salk,** his father, who becomes chairman of the board. The new president was formerly secretary-treasurer. He is a graduate of the University of Chicago, with a master's degree, and served as an army captain in World War II and then in the postwar years as chief of wages and working conditions for the Japanese nation under Gen. Douglas MacArthur. Following two years in Paris as a section chief of the United Nations Educational, Scientific and Cultural Organization, he joined the mortgage banking firm, one active in financing industrial and commercial properties, apartment buildings, hotels and motels.

Harry Salk

Erwin A. Salk

The County Trust Company in Tarrytown, New York, has named **William E. Neilson** as assistant mortgage officer. He has been with the bank for ten years and is a graduate of the MBA School of Mortgage Banking.

Jay I. Kislak, president of the J. I. Kislak Mortgage Corporation of Florida, has been elected a director of the Dade National Bank in Miami.

MBA President Tharpe inspects the rockets: An official (left) at the George C. Marshall Space Flight

Center, Huntsville, Ala., describes the Saturn booster to Mr. Tharpe, **John C. Hall, Sr.,** president, Cobbs, Allen and Hall Mortgage Co., Inc., Birmingham, and **George D. Blakeslee,** assistant director of the mortgage loan branch, State Mutual Life Assurance Company of America, Worcester, Mass. They are shown standing beneath the cluster of eight H-1 rocket engines which will power the 1,500,000-pound-thrust super booster. Indicative of the gigantic size of Saturn is the fact that only one of the eight engines appears in the picture.

Henri Bourneuf will resign as second vice president of the mortgage and real estate department of New England Mutual Life Insurance Company on January 1 to become vice president of the Real Estate Investment Trust of America.

Recent legislation granting qualified real estate trusts similar tax treatments to mutual funds creates many opportunities for the Trust, a pioneer in the field of real estate trusts, the announcement said.

Real Estate Investment Trust of America is the successor to three real estate trusts formed in the 19th century to provide the benefits of a diversified ownership of investment real estate to its shareholders. Its latest annual statement showed assets of $23,295,388 including 55 owned commercial properties in thirteen states and the District of Columbia.

Except for four years of military service in World War II, Bourneuf has been active in real estate since his graduation from Harvard in 1933. He was associated with Walter Channing, Inc. from 1934-48 and there handled the Boston mortgage account of the Connecticut General Life Insurance Company.

During the past twelve years he has been an officer of New England Life investment department where, in addition to general investment activity, he has had special responsibilities in the fields of shopping center financing and leaseback investments.

J. Maxwell Pringle & Co. Inc., New York, announced the promotion of **Irving I. Zimmerman** to assistant vice president, and **Charles W. Hitchcock** to assistant secretary. Mr. Zimmerman, a graduate of Fordham University and Brooklyn Law Schools, was engaged in private law practice prior to joining the Pringle organization. Mr. Hitchcock joined Pringle after graduating from American College, Washington, D. C. **Frederick D. Bailey,** formerly of Glen Rock Savings and Loan Association, Glen Rock, New Jersey, has joined their sales staff.

The Philip Zinman Foundation has awarded scholarships to three students at the University of Pennsylvania's Wharton School and The Moore Institute of Art. The Foundation was established in 1951 by **Philip Zinman,** chairman of the board of South Jersey Mortgage Co., Camden, N. J.

James M. Riffe, assistant vice president, has been promoted to vice president in charge of coordinating branch offices of Thomas & Hill, Inc., Charleston, West Va.

Irvin Jacobs, president of Irvin Jacobs & Company, Chicago, is marking his fiftieth year in mortgage financing by starting a new company. He has opened an office in Chicago, the second such company to bear his name.

The original company was sold for $1,700,000 four years ago to the First Mortgage Corporation of Detroit. After the sale, the company adopted the name of a former Jacobs subsidiary, Advance Mortgage Corporation, because there was already a First Mortgage Company of Chicago. During the past four years, Jacobs was associated with Advance as a consultant.

Irvin Jacobs

In his new business, the veteran real estate financier will serve as a consultant for both individuals and businesses and invest in small businesses which require capital for growth. He will service mortgages, both those he originates and others.

A former chairman of MBA's finance committee, Jacobs first entered the mortgage lending business in his home town of Ligonier, Indiana in 1911. His association there with Straus Bros., then the largest farm merchants in the United States, started the career which led to his forming his own company in 1925.

When FHA was created, Jacobs was anxious to participate but faced a momentary problem when FHA ruled that only corporations could become approved mortgagees. Since his firm at that time was a proprietorship, he formed the original Advance Mortgage Corporation as an affiliate to meet this requirement and to handle the organization's FHA business.

Irvin Jacobs & Co., incorporated in 1946, served as loan correspondent for over 30 life insurance companies as well as many banks, trust companies and private investors.

East Bay Mortgage Service, Inc., Oakland, Calif., has changed its name to Pacific States Mortgage Service, Inc. The Company operates branches in San Jose and Sacramento. Personnel includes **F. J. Federighi,** president; **A. T. Beckett,** vice president; executive vice president, **Clinton C. DeWitt, Jr.;** vice president in charge of commercial loans, **John C. Opperman;** vice president in charge of residential loans, **Vern P. Schafer. Robert M. Johnson** is director of servicing and **Robert B. DeWitt** is legal officer.

The name change was made, said Clinton C. DeWitt, Jr., "in keeping with our over-all expansion program which includes doubling the size of our main office and seeking at least two new branch offices in the West."

Walter Berg, associated with Dovenmuehle, Inc. in Chicago for 39 years, retires as of the end of the year. His firm made the first FHA loan in the Chicago area and during the long period since then Mr. Berg has been one of the recognized authorities on construction loan financing. He wrote the chapter on the subject for **Mortgage Banking,** MBA's standard text of the industry. At a dinner held to commemorate his retirement his friends presented him with a silver tray.

Promotion of four members of Massachusetts Mutual Life Insurance Company's home office staff has been announced.

Edward P. Bennett, Jr., former superintendent of mortgage loans, has been appointed second vice president; **Arthur D. Graham** and **Edwin S. Nelmes** have been named superintendents of mortgage loans; and **Dwight Webb, Jr.,** has been made associate superintendent of mortgage loans.

Mr. Bennett, a native of Texas where he attended Southern Methodist University, entered the mortgage loan and general insurance business in 1937. He joined Massachusetts Mutual in the Dallas mortgage loan office in 1946, coming to the home office as assistant superintendent of mortgage loans in 1953.

E. P. Bennett, Jr.

Edwin S. Nelmes

Arthur D. Graham

Dwight Webb, Jr.

Mr. Nelmes joined Massachusetts Mutual in 1932 as a member of the calculation department. He was transferred to the company's Detroit district mortgage loan office as cashier in 1943. In 1953 he returned to the home office as mortgage loan assistant, being named assistant superintendent of mortgage loans in 1955.

Mr. Graham, a native of Dover, N. H., joined Massachusetts Mutual as assistant superintendent of mortgage loans in 1959. Successively he became mortgage loan supervisor, assistant west coast regional loan supervisor, and southwest regional supervisor for two insurance companies.

A native of Nashville, Tenn., Mr. Webb joined the Massachusetts Mutual as assistant superintendent of mortgage loans in 1955.

Members of the Atlanta MBA and others in the mortgage industry in Atlanta got together in October to honor MBA President Robert Tharpe after he assumed his Association post at the 1960 Convention. Some who were there included, first photo, left to right, Henry H. Ware, Jr., attorney; Jack Martin, president, Colonial Investment and Mortgage Company; Robert P. Crawford, vice president, Title Company of Georgia; and President Tharpe.

Others at the testimonial dinner included, lower photo, left to right, W. W. Gates, chief underwriter, FHA, Atlanta; John F. Thigpen, FHA State Director; Mr. Tharpe; Raymond Schwartz, assistant FHA director; W. D. Cornwell, assistant agency manager, FNMA, Atlanta; and H. L. Herrington, assistant agency manager, FNMA, Atlanta.

And speaking of changes affecting people, there's been one in MBA. **Richard G. Oller,** who since 1957 has been assistant director of research and education of the Association, has been named director of meetings and in his new position will supervise the arrangements for MBA's nation-wide meetings.

R. G. Oller

Obituary

With great regret the death is recorded of Byron V. Kanaley of Chicago, a former president of MBA. He passed away in Augustana Hospital in Chicago after a brief illness. In addition to serving as MBA president he was also president of the Chicago Real Estate board and the Notre Dame Club of Chicago. He was a founder and first president of the Chicago MBA.

He was on the board of the United Catholic Charities and was former chairman of the board of lay trustees of the University of Notre Dame.

Surviving are his widow, three daughters, a son, brother, 15 grandchildren, and seven great-grandchildren.

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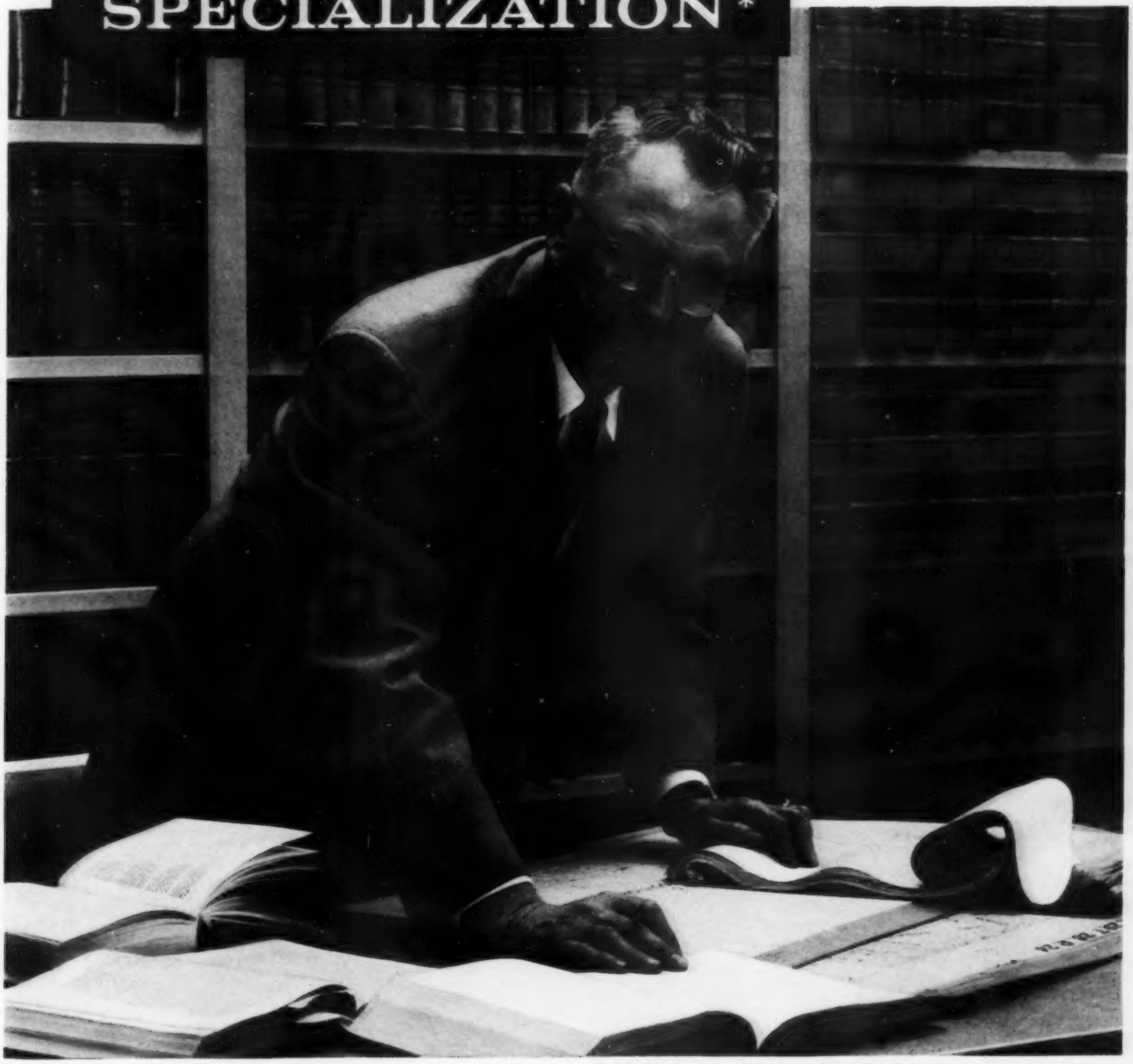

J. C. CONNELLY, *Assistant Vice President and Assistant Counsel*

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